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MT LEGISLATIVE HISTORY

Chapter 655 1987

Bill H _____ (S) 383 Original bill & hist. ___C

H. Committee on Taxation		S. Committee on Taxation	
Hearing Date(s) April 03	✓ C	Hearing Date(s) March 03	✓ C
April 08	✓ C	March 06	✓ C
_____	___C	_____	___C
_____	___C	_____	___C
Date Out April 08	✓ C	March 06	✓ C

Did this bill originate in an interim committee? ___Yes ___No

Committee _____ Report _____

SENATE BILL NO. 383

INTRODUCED BY GAGE, KOLSTAD, MCCALLUM, GIACOMETTO, IVERSON, GILBERT, HIRSCH

IN THE SENATE

FEBRUARY 19, 1987	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
MARCH 7, 1987	COMMITTEE RECOMMEND BILL DO PASS AS AMENDED. REPORT ADOPTED.
MARCH 9, 1987	PRINTING REPORT.
MARCH 11, 1987	SECOND READING, DO PASS AS AMENDED.
MARCH 12, 1987	ENGROSSING REPORT.
	ON MOTION, TAKEN FROM THIRD READING AND PLACED ON SECOND READING.
MARCH 13, 1987	SECOND READING, DO PASS AS AMENDED.
MARCH 14, 1987	ENGROSSING REPORT.
MARCH 16, 1987	THIRD READING, PASSED. AYES, 46; NOES, 4.
	TRANSMITTED TO HOUSE.

IN THE HOUSE

MARCH 17, 1987	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
APRIL 8, 1987	COMMITTEE RECOMMEND BILL BE CONCURRED IN AS AMENDED. REPORT ADOPTED.
APRIL 10, 1987	SECOND READING, CONCURRED IN.
APRIL 11, 1987	THIRD READING, CONCURRED IN. AYES, 67; NOES, 26.
	RETURNED TO SENATE WITH AMENDMENTS.

	IN THE SENATE
APRIL 15, 1987	RECEIVED FROM HOUSE.
	SECOND READING, AMENDMENTS CONCURRED IN.
	ON MOTION, RULES SUSPENDED TO PLACE BILL ON THIRD READING THIS DAY.
	THIRD READING, AMENDMENTS CONCURRED IN.
	SENT TO ENROLLING.
APRIL 17, 1987	ENROLLING REPORT.
	SIGNED BY PRESIDENT.
	IN THE HOUSE
APRIL 20, 1987	SIGNED BY SPEAKER.
	IN THE SENATE
APRIL 20, 1987	DELIVERED TO GOVERNOR.
APRIL 22, 1987	RETURNED FROM GOVERNOR WITH RECOMMENDED AMENDMENTS.
	IN THE HOUSE
APRIL 22, 1987	SECOND READING, GOVERNOR'S RECOMMENDED AMENDMENTS CONCURRED IN.
	THIRD READING, GOVERNOR'S RECOMMENDED AMENDMENTS CONCURRED IN.
	IN THE SENATE
APRIL 23, 1987	ON MOTION, GOVERNOR'S RECOMMENDED AMENDMENTS PLACED ON SECOND READING THIS DAY.
	SECOND READING, GOVERNOR'S RECOMMENDED AMENDMENTS CONCURRED IN.

APRIL 23, 1987

THIRD READING, GOVERNOR'S RECOMMENDED AMENDMENTS CONCURRED IN.

SENT TO ENROLLING.

SENATE BILL NO. 383

INTRODUCED BY Robert Wilkinson, Teresa Gilbert, Jim Elliott, Diacomotta

A BILL FOR AN ACT ENTITLED: "AN ACT DEFINING "INTERIM PRODUCTION" OF PETROLEUM, OIL, AND NATURAL GAS; REVISING THE DEFINITION OF "NEW PRODUCTION" OF PETROLEUM, OIL, AND NATURAL GAS; EXTENDING THE UNIFORM RATE OF NET PROCEEDS TAXATION TO INTERIM PRODUCTION AND REDEFINED NEW PRODUCTION; PROVIDING FOR THE EXEMPTION FROM NET PROCEEDS TAXES FOR 24 MONTHS FOR NEW PRODUCTION FROM NATURAL GAS, PETROLEUM, AND OIL WELLS; PROVIDING FOR PRORATING OF DEDUCTIONS TO DETERMINE NET PROCEEDS; PROVIDING FOR QUARTERLY PAYMENT OF INTERIM PRODUCTION AND NEW PRODUCTION NET PROCEEDS TAXES; REVISING THE DEFINITION OF "TAXABLE VALUATION" AS IT APPLIES TO COUNTY CLASSIFICATION; AMENDING SECTIONS 7-1-2111, 7-7-2101, 7-7-2203, 7-14-2524, 7-14-2525, 7-16-2327, 15-6-208, 15-16-102, 15-16-121, 15-23-601 THROUGH 15-23-605, 15-23-607, 15-23-612, 15-23-613, 20-9-141, 20-9-331, 20-9-333, 20-9-352, 20-9-501, AND 20-10-144, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 7-1-2111, MCA, is amended to read:

"7-1-2111. Classification of counties. (1) For the purpose of regulating the compensation and salaries of all county officers, not otherwise provided for, and for fixing the penalties of officers' bonds, the several counties of this state shall be classified according to that percentage of the true and full valuation of the property therein upon which the tax levy is made, as follows:

(a) first class--all counties having such a taxable valuation of $50 million or over;

(b) second class--all counties having such a taxable valuation of more than $30 million and less than $50 million;

(c) third class--all counties having such a taxable valuation of more than $20 million and less than $30 million;

(d) fourth class--all counties having such a taxable valuation of more than $15 million and less than $20 million;

(e) fifth class--all counties having such a taxable valuation of more than $10 million and less than $15 million;

(f) sixth class--all counties having such a taxable valuation of more than $5 million and less than $10 million;

(g) seventh class--all counties having such a taxable valuation of less than $5 million.

(2) As used in this section, taxable valuation means

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the taxable value of taxable property in the county as of the time of determination plus:

(a) that portion of the taxable value of the county on December 31, 1981, attributable to automobiles and trucks having a rated capacity of three-quarters of a ton or less; ~~and~~

(b) the amount of interim production and new production taxes levied, as provided in 15-23-607, divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%~~.~~; and

(c) the amount of value represented by new production exempted from tax as provided in 15-23-612."

Section 2. Section 7-7-2101, MCA, is amended to read:

"7-7-2101. Limitation on amount of county indebtedness. (1) No county may become indebted in any manner or for any purpose to an amount, including existing indebtedness, in the aggregate exceeding 23% of the total of the taxable value of the property therein subject to taxation, plus the amount of interim production and new production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%, plus the amount of value represented by new production exempted from tax as provided in 15-23-612, as ascertained by the last assessment for state and county taxes previous to the incurring of such indebtedness.

(2) No county may incur indebtedness or liability for any single purpose to an amount exceeding $500,000 without the approval of a majority of the electors thereof voting at an election to be provided by law, except as provided in 7-21-3413 and 7-21-3414.

(3) Nothing in this section shall apply to the acquisition of conservation easements as set forth in Title 76, chapter 6."

Section 3. Section 7-7-2203, MCA, is amended to read:

"7-7-2203. Limitation on amount of bonded indebtedness. (1) Except as provided in subsections (2) through (4), no county may issue general obligation bonds for any purpose which, with all outstanding bonds and warrants except county high school bonds and emergency bonds, will exceed 11.25% of the total of the taxable value of the property therein, plus the amount of interim production and new production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%, plus the amount of value represented by new production exempted from tax as provided in 15-23-612, to be ascertained by the last assessment for state and county taxes prior to the proposed issuance of bonds.

(2) In addition to the bonds allowed by subsection (1), a county may issue bonds which, with all outstanding

bonds and warrants, will not exceed 27.75% of the total of the taxable value of the property in the county subject to taxation, plus the amount of interim production and new production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%, plus the amount of value represented by new production exempted from tax as provided in 15-23-612, when necessary to do so, for the purpose of acquiring land for a site for county high school buildings and for erecting or acquiring buildings thereon and furnishing and equipping the same for county high school purposes.

(3) In addition to the bonds allowed by subsections (1) and (2), a county may issue bonds for the construction or improvement of a jail which will not exceed 12.5% of the taxable value of the property in the county subject to taxation.

(4) The limitation in subsection (1) shall not apply to refunding bonds issued for the purpose of paying or retiring county bonds lawfully issued prior to January 1, 1932."

Section 4. Section 7-14-2524, MCA, is amended to read:

"7-14-2524. Limitation on amount of bonds issued -- excess void. (1) Except as otherwise provided hereafter and in 7-7-2203 and 7-7-2204, no county shall issue bonds which, with all outstanding bonds and warrants except county high

school bonds and emergency bonds, will exceed 11.25% of the total of the taxable value of the property therein, plus the amount of interim production and new production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%, plus the amount of value represented by new production exempted from tax as provided in 15-23-612. The taxable property and the amount of interim production and new production taxes levied shall be ascertained by the last assessment for state and county taxes prior to the issuance of such bonds.

(2) A county may issue bonds which, with all outstanding bonds and warrants except county high school bonds, will exceed 11.25% but will not exceed 22.5% of the total of the taxable value of such property, plus the amount of interim production and new production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%, plus the amount of value represented by new production exempted from tax as provided in 15-23-612, when necessary for the purpose of replacing, rebuilding, or repairing county buildings, bridges, or highways which have been destroyed or damaged by an act of God, disaster, catastrophe, or accident.

(3) The value of the bonds issued and all other outstanding indebtedness of the county, except county high school bonds, shall not exceed 22.5% of the total of the

taxable value of the property within the county, plus the amount of interim production and new production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%, plus the amount of value represented by new production exempted from tax as provided in 15-23-612, as ascertained by the last preceding general assessment."

Section 5. Section 7-14-2525, MCA, is amended to read:

"7-14-2525. Refunding agreements and refunding bonds authorized. (1) Whenever the total indebtedness of a county exceeds 22.5% of the total of the taxable value of the property therein, plus the amount of interim production and new production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%, plus the amount of value represented by new production exempted from tax as provided in 15-23-612, and the board determines that the county is unable to pay such indebtedness in full, the board may:

(a) negotiate with the bondholders for an agreement whereby the bondholders agree to accept less than the full amount of the bonds and the accrued unpaid interest thereon in satisfaction thereof;

(b) enter into such agreement;

(c) issue refunding bonds for the amount agreed upon.

(2) These bonds may be issued in more than one series,

and each series may be either amortization or serial bonds.

(3) The plan agreed upon between the board and the bondholders shall be embodied in full in the resolution providing for the issue of the bonds."

Section 6. Section 7-16-2327, MCA, is amended to read:

"7-16-2327. Indebtedness for park purposes. (1) Subject to the provisions of subsection (2), a county park board, in addition to powers and duties now given under law, shall have the power and duty to contract an indebtedness in behalf of a county, upon the credit thereof, for the purposes of 7-16-2321(1) and (2).

(2) (a) The total amount of indebtedness authorized to be contracted in any form, including the then-existing indebtedness, must not at any time exceed 13% of the total of the taxable value of the taxable property in the county, plus the amount of interim production and new production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a) or (2)(b) and multiplied by 60%, plus the amount of value represented by new production exempted from tax as provided in 15-23-612, ascertained by the last assessment for state and county taxes previous to the incurring of such indebtedness.

(b) No money may be borrowed on bonds issued for the purchase of lands and improving same for any such purpose until the proposition has been submitted to the vote of

those qualified under the provisions of the state constitution to vote at such election in the county affected thereby and a majority vote is cast in favor thereof."

Section 7. Section 15-6-208, MCA, is amended to read:

"15-6-208. Mineral exemptions. (1) One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation.

(2) Metal mines producing less than 20,000 tons of ore in a taxable year shall be exempt from property taxation on one-half of the merchantable value.

(3) New production, as defined in 15-23-601, is exempt from taxation for the first 24 months of production as provided in 15-23-612."

Section 8. Section 15-16-102, MCA, is amended to read:

"15-16-102. Time for payment -- penalty for delinquency. All taxes levied and assessed in the state of Montana, except assessments made for special improvements in cities and towns payable under 15-16-103 and assessments made on interim production and new production as provided in Title 15, chapter 23, part 6, and payable under 15-16-121, shall be payable as follows:

(1) One-half of the amount of such taxes shall be payable on or before 5 p.m. on November 30 of each year and one-half on or before 5 p.m. on May 31 of each year.

(2) Unless one-half of such taxes are paid on or before 5 p.m. on November 30 of each year, then such amount so payable shall become delinquent and shall draw interest at the rate of 5/6 of 1% per month from and after such delinquency until paid and 2% shall be added to the delinquent taxes as a penalty.

(3) All taxes due and not paid on or before 5 p.m. on May 31 of each year shall be delinquent and shall draw interest at the rate of 5/6 of 1% per month from and after such delinquency until paid and 2% shall be added to the delinquent taxes as a penalty."

Section 9. Section 15-16-121, MCA, is amended to read:

"15-16-121. Payment of interim production and new production taxes. (1) Taxes levied and assessed on interim production or new production under the provisions of Title 15, chapter 23, part 6, must be paid to the county treasurer in quarterly installments. The payments must be made on or before 5 p.m. on the last day of the months of November, February, May, and August.

(2) Unless one-quarter of such taxes are paid on or before 5 p.m. on the last day of the months of November, February, May, and August of each year, any amount so payable is delinquent.

(3) All such delinquent taxes must draw interest at the rate payable on delinquencies under 15-23-115.

(4) There must also be added to the delinquent taxes a penalty at the same rate as provided for delinquencies under 15-23-104."

Section 10. Section 15-23-601, MCA, is amended to read:

"15-23-601. Definitions. As used in this part, the following definitions apply:

(1) "Excise tax" means the windfall profit tax on domestic crude oil imposed by Title I of the federal Crude Oil Windfall Profit Tax Act of 1980, as enacted or as amended.

(2) (a) "Interim production" means the production of natural gas, petroleum, or other crude or mineral oil from any well that:

(i) had not produced natural gas, petroleum, or other crude or mineral oil during the 5 years immediately preceding the first month of interim production; and

(ii) began interim production after June 30, 1985, and before January 1, 1987.

(b) Interim production, when used in connection with a pooled or unitized area, is treated as follows:

(i) if a lease contains land that is partly within and partly outside of a pooled or unitized area, the land that is outside of the pooled or unitized area must be considered a separate lease; and

(ii) a pooled or unitized area must be considered a separate lease.

~~(2)~~(3) (a) The term "new production" means the production of natural gas, petroleum, or other crude or mineral oil from any ~~lease~~ well:

(i) that has not produced natural gas, petroleum, or other crude or mineral oil during the 5 years immediately preceding the first month of qualified new production~~.~~; and

(ii) on which the notification required in 15-36-121(2) was given.

(b) New production, when used in connection with a pooled or unitized area, is treated as follows:

(i) if a lease contains land that is partly within and partly outside of a pooled or unitized area, the land that is outside of the pooled or unitized area must be considered a separate lease; and

(ii) a pooled or unitized area must be considered a separate lease.

~~(3)~~(4) The terms "operator" and "producer" mean any person who engages in the business of drilling for, extracting, or producing any natural gas, petroleum, or other crude or mineral oil.

~~(4)~~(5) The term "well" includes each single well or group of wells, including dry wells, in one field or production unit and under the control of one operator or

producer."

Section 11. Section 15-23-602, MCA, is amended to read:

"15-23-602. Statement of sales proceeds. (1) Except as provided in subsection (2), each operator or producer of natural gas, petroleum, or other crude or mineral oil must on or before April 15 in each year make out and deliver to the department of revenue a statement of the gross sales proceeds of such natural gas, petroleum, or other crude or mineral oil from each well owned or worked by such person during the next preceding calendar year. The gross sales proceeds shall be determined by multiplying the units of production sold from the well times the royalty unit value of that production at the well. Such statement shall be in the form prescribed by the department and must be verified by the oath of the operator or producer or the manager, superintendent, agent, president, or vice-president of such corporation, association, or partnership. Such statement shall show the following:

(a) the name and address of the operator, together with a list in duplicate of the names and addresses of any and all persons owning or claiming any royalty interest in the production from the well or the proceeds derived from the sale thereof, and the amount or amounts paid or yielded as royalty to each of such persons during the period covered

by the statement;

(b) the description and location of the well;

(c) the number of cubic feet of natural gas, barrels of petroleum or other crude or mineral oil sold from the well during the period covered by the statement;

(d) the gross sales proceeds in dollars and cents or, in the case of sales between parties not acting at arm's length, the greater of the gross sales proceeds from or the fair market value of the products sold;

(e) except for interim production and new production as defined in 15-23-601:

(i) actual cost of extracting product from well;

(ii) cost of construction, repairs, and betterments;

(iii) actual cost of fire insurance and workers' compensation insurance;

(iv) the amount paid or withheld in satisfaction of liability for excise taxes imposed by the U.S. government on the production, sale, or removal of the natural gas, petroleum, or other crude or mineral oil reported pursuant to subsection (1)(c), including a separate statement of the amount of such taxes paid or withheld from each royalty owner.

(2) Each operator having interim production or new production as defined in 15-23-601 shall, on or before the last day of the months of October, January, April, and July,

make out and deliver to the department of revenue a statement of the gross sales proceeds of such interim production or new production from each well owned or worked by such person during the preceding calendar quarter. The statement must be in the form prescribed by the department and verified as provided in subsection (1). The statement shall show the information required in subsections (1)(a) through (1)(d)."

Section 12. Section 15-23-603, MCA, is amended to read:

"15-23-603. Net proceeds -- how computed. (1) Except as provided in subsection (3), the department of revenue shall calculate and compute from the returns the gross sales proceeds of the product yielded from such well for the year covered by the statement and shall calculate the net proceeds of the well yielded to the producer, which net proceeds shall be determined by subtracting from the gross sales proceeds thereof the following:

(a) all royalty paid in cash by the operator or producer and the gross value of all royalty apportioned in kind by the operator or producer that shall be determined by using as the value of a barrel of oil or a cubic foot of gas the average selling price for the calendar year of a barrel of oil or a cubic foot of gas from the well out of which the royalty was paid;

(b) all money expended for necessary labor and machinery needed and used in the operation and development;

(c) except as provided in subsection ~~(4)~~ (5), all money expended for necessary supplies needed and used in the operation and development;

(d) all money expended for improvements, repairs, and betterments necessary in and about the working of the well;

(e) that portion of all money, including costs of insurance, expended for the acquisition and operation of any vehicle used in the operation and development of the well which bears the same ratio to all money expended for the acquisition and use of the vehicle during the year covered by the statement as the number of miles the vehicle is used in operation and development of the well during the year covered by the statement bears to the total miles the vehicle is used during the year covered by the statement;

(f) all money expended for fire insurance, workers' compensation insurance, liability insurance, and casualty insurance directly attributable to the operation and development of the well and for payments by operators to welfare and retirement funds when provided for in wage contracts between operators and employees;

(g) all money expended for any performance or indemnity bonds required by the laws of this state or the rules of any state agency, with respect to the well for

which the net proceeds are being calculated; and

(h) 70% of the amount paid or withheld in satisfaction of liability for excise taxes imposed by the U.S. government on the production, sale, or removal of the natural gas, petroleum, or other crude or mineral oil yielded from such well, other than the amount of such taxes paid by or withheld from each royalty owner; and

(i) net proceeds determined under subsection (3).

(2) No money invested in the well and improvements during any year except the year for which such statement is made may be included in such expenditures, except as provided in 15-23-604, and such expenditures may not include the salaries or any portion thereof of any person or officer not actually engaged in the working of the well or superintending the management thereof.

(3) For interim production or new production, net proceeds are the equivalent of the gross sales proceeds, without deduction for excise taxes, of the product yielded from such well for the year covered by the statement, except that in computing the total number of barrels of petroleum and other mineral or crude oil or cubic feet of natural gas produced, there shall be deducted therefrom so much thereof as is used in the operation of the well from which the petroleum or other mineral or crude oil or natural gas is produced for pumping the petroleum or other mineral or crude

oil or natural gas from the well to a tank or pipeline.

(4) To determine net proceeds under subsection (1) for lease or unitized areas from which interim or new production and other production have been sold, the deductions allowed in subsections (1)(b) through (1)(h) must be prorated on the basis of the number of barrels of interim and new production of oil or cubic feet of interim or new production of gas to the number of barrels of other production of oil or cubic feet of other production of gas.

~~(4)~~(5) In calculating the deduction for money expended for necessary chemical supplies needed and used in a tertiary recovery project approved by the department of revenue, as provided in 15-36-101, the department shall require that the necessary chemical supplies, which include but are not limited to carbon dioxide supplies, be amortized over a 10-year period beginning with the year in which the money was expended."

Section 13. Section 15-23-604, MCA, is amended to read:

"15-23-604. Deduction of drilling costs and capital expenditures. (1) Unless an operator or producer proceeds under subsection (2), the department of revenue in computing the deductions allowable for cost of drilling wells completed during the period and for other capital expenditures shall allow 10% of such cost each year for a

period of 10 years beginning:

~~(a)--after--the--3-year--exemption--period--allowed--in 15-36-121-for-qualified-natural-gas-wells;~~

~~(b)~~(a) with the year natural gas from a ~~nonqualified~~ natural gas well is first placed into a natural gas distribution system; or

~~(c)~~(b) with the year the pumping unit is installed on a crude oil well or the well flows.

(2) The operator or producer may elect to amortize the cost over a period of 2 years if the well is less than 3,000 feet deep.

(3) The deduction of the costs in subsection (1) is not allowed on wells that are producing interim production or new production, as defined in 15-23-601, and may not be prorated on wells that are not producing interim production or new production when a lease or unitized area has both interim or new production and other production."

Section 14. Section 15-23-605, MCA, is amended to read:

"15-23-605. Assessment of royalties. (1) The amount of royalty received, valued as provided in 15-23-603(1)(a), less 70% of the amount of excise taxes paid by or withheld from the royalty owner as reported pursuant to 15-23-602(8), shall be considered net proceeds to the recipient and shall be assessed as follows: upon receipt of the lists or

schedules setting forth the names and addresses of any and all persons owning or claiming royalty and the amount paid or yielded as royalty to such royalty owners or claimants during the year for which such return is made, the department of revenue shall proceed to assess and tax the same as net proceeds of mines.

(2) Net proceeds for interim production and new production, as defined in 15-23-601, includes royalties received without deduction for excise taxes."

Section 15. Section 15-23-607, MCA, is amended to read:

"15-23-607. County assessors to compute taxes. (1) Immediately after the board of county commissioners has fixed tax levies on the second Monday in August, the county assessor shall compute the taxes on such net proceeds, except as provided in ~~15-36-121~~ 15-23-612 and in subsection (2), and royalty assessments and shall deliver the book to the county treasurer on or before September 15. The county treasurer shall proceed to give full notice thereof to such operator and to collect the same in manner provided by law.

(2) For interim production or new production, as defined in 15-23-601, the county assessor may not levy or assess any mills against the value of such interim production or new production, but shall instead levy a tax as follows:

(a) for interim production or new production of petroleum or other mineral or crude oil, 7% of net proceeds, as described in 15-23-603(3); or

(b) for interim production or new production of natural gas, 12% of net proceeds, as described in 15-23-603(3).

(3) The amount of tax levied in subsections (2)(a) and (2)(b), divided by the appropriate tax rate and multiplied by 60%, shall be treated as taxable value for county bonding purposes.

(4) The operator or producer shall be liable for the payment of said taxes and same shall, except as provided in 15-16-121, be payable by and shall be collected from such operators in the same manner and under the same penalties as provided for the collection of taxes upon net proceeds of mines; provided, however, that the operator may at his option withhold from the proceeds of royalty interest, either in kind or in money, an estimated amount of the tax to be paid by him upon such royalty or royalty interest. After such withholding any deviation between the estimated tax and the actual tax may be accounted for by adjusting subsequent withholdings from the proceeds of royalty interests."

Section 16. Section 15-23-612, MCA, is amended to read:

"15-23-612. Certain natural gas, petroleum, or other crude or mineral oil exempt. (1) ~~Natural gas produced as provided in 15-36-121(2) is exempt from one-half the net proceeds tax imposed by this part for 3 years beginning as provided in 15-36-121(3) if the requirements of 15-36-121(2) are met.~~ New production, as defined in 15-23-601, is exempt from the net proceeds tax imposed by this part for the first 24 months following the last day of the calendar month immediately preceding the month in which:

(a) natural gas is placed into a natural gas distribution system; or

(b) production for sale from a crude oil or mineral oil well is pumped or flows.

(2) After the expiration of the 24-month exemption period provided in subsection (1), new production of natural gas, petroleum, or other crude or mineral oil is subject to net proceeds tax imposed by this part.

~~(2)~~(3) Notwithstanding the provisions of ~~subsection~~ subsections (1) and (2), all reporting requirements under the net proceeds tax remain in effect."

Section 17. Section 15-23-613, MCA, is amended to read:

"15-23-613. Disposition of ~~taxes in lieu of net proceeds~~ interim production and new production taxes. The county treasurer shall credit all taxes on interim

production and new ~~oil or gas~~ production, as provided for in 15-23-607, in the relative proportions required by the levies for state, county, school district, and municipal purposes in the same manner as property taxes were distributed in the year preceding the budget year."

NEW SECTION. Section 18. Allocation of new production. (1) If a lease has production that does not qualify for new or interim production and a producing well is completed on the lease after December 31, 1986, the allocation of the new production must be based on the average daily production per well. The average daily production per well must be determined by dividing the total production for the quarter by the number of well production days for the quarter.

(2) The number of well production days for the quarter is the sum of the number of completed wells on the first day of the quarter times the number of days in the quarter plus the number of days from the date of completion of any wells during the quarter to the end of the quarter. New production for the quarter must then be calculated by multiplying the average daily production per well times the number of wells completed after December 31, 1986, times the number of production days attributed to those wells for the quarter. The value of the production must be based on the average price received for the production for the quarter.

(3) Average daily production, well production days, and average price must be calculated each quarter.

Section 19. Section 20-9-141, MCA, is amended to read:

"20-9-141. Computation of general fund net levy requirement by county superintendent. (1) The county superintendent shall compute the levy requirement for each district's general fund on the basis of the following procedure:

(a) Determine the total of the funding required for the district's final general fund budget less the amount established by the schedules in 20-9-316 through 20-9-321 by totaling:

(i) the district's nonisolated school foundation program requirement to be met by a district levy as provided in 20-9-303;

(ii) the district's permissive levy amount as provided in 20-9-352; and

(iii) any general fund budget amount adopted by the trustees of the district under the provisions of 20-9-353, including any additional levies authorized by the electors of the district.

(b) Determine the total of the moneys available for the reduction of the property tax on the district for the general fund by totaling:

(i) anticipated federal moneys received under the

provisions of Title I of Public Law 81-874 or other anticipated federal moneys received in lieu of such federal act;

(ii) anticipated tuition payments for out-of-district pupils under the provisions of 20-5-303, 20-5-307, 20-5-312, and 20-5-313;

(iii) general fund cash reappropriated, as established under the provisions of 20-9-104;

(iv) anticipated or reappropriated state impact aid received under the provisions of 20-9-304;

(v) anticipated or reappropriated motor vehicle fees and reimbursement under the provisions of 61-3-532 and 61-3-536;

(vi) anticipated net proceeds taxes for interim production and new production, as defined in 15-23-601;

(vii) anticipated interest to be earned or reappropriated interest earned by the investment of general fund cash in accordance with the provisions of 20-9-213(4); and

(viii) any other revenue anticipated by the trustees to be received during the ensuing school fiscal year which may be used to finance the general fund.

(c) Subtract the total of the moneys available to reduce the property tax required to finance the general fund that has been determined in subsection (1)(b) from the total

requirement determined in subsection (1)(a).

(2) The net general fund levy requirement determined in subsection (1)(c) shall be reported to the county commissioners on the second Monday of August by the county superintendent as the general fund levy requirement for the district, and a levy shall be made by the county commissioners in accordance with 20-9-142."

Section 20. Section 20-9-331, MCA, is amended to read:

"20-9-331. Basic county tax and other revenues for county equalization of the elementary district foundation program. (1) It shall be the duty of the county commissioners of each county to levy an annual basic tax of 28 mills on the dollars of the taxable value of all taxable property within the county for the purposes of local and state foundation program support. The revenue to be collected from this levy shall be apportioned to the support of the foundation programs of the elementary school districts in the county and to the state special revenue fund, state equalization aid account, in the following manner:

(a) In order to determine the amount of revenue raised by this levy which is retained by the county, the sum of the estimated revenues identified in subsection (2) below shall be subtracted from the sum of the county elementary transportation obligation and the total of the foundation

programs of all elementary districts of the county.

(b) If the basic levy prescribed by this section produces more revenue than is required to finance the difference determined above, the county treasurer shall remit the surplus funds to the state treasurer for deposit to the state special revenue fund, state equalization aid account, immediately upon occurrence of a surplus balance and each subsequent month thereafter, with any final remittance due no later than June 20 of the fiscal year for which the levy has been set.

(2) The proceeds realized from the county's portion of the levy prescribed by this section and the revenues from the following sources shall be used for the equalization of the elementary district foundation programs of the county as prescribed in 20-9-334, and a separate accounting shall be kept of such proceeds and revenues by the county treasurer in accordance with 20-9-212(1):

(a) the portion of the federal Taylor Grazing Act funds distributed to a county and designated for the common school fund under the provisions of 17-3-222;

(b) the portion of the federal flood control act funds distributed to a county and designated for expenditure for the benefit of the county common schools under the provisions of 17-3-232;

(c) all money paid into the county treasury as a

result of fines for violations of law and the use of which is not otherwise specified by law;

(d) any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's account for the various sources of revenue established or referred to in this section;

(e) any federal or state money, including anticipated or reappropriated motor vehicle fees and reimbursement under the provisions of 61-3-532 and 61-3-536, distributed to the county as payment in lieu of the property taxation established by the county levy required by this section; and

(f) net proceeds taxes for interim production and new production, as defined in 15-23-601."

Section 21. Section 20-9-333, MCA, is amended to read:

"20-9-333. Basic special levy and other revenues for county equalization of high school district foundation program. (1) It shall be the duty of the county commissioners of each county to levy an annual basic special tax for high schools of 17 mills on the dollar of the taxable value of all taxable property within the county for the purposes of local and state foundation program support. The revenue to be collected from this levy shall be apportioned to the support of the foundation programs of high school districts in the county and to the state special revenue fund, state equalization aid account, in the

following manner:

(a) In order to determine the amount of revenue raised by this levy which is retained by the county, the estimated revenues identified in subsections (2)(a) and (2)(b) below shall be subtracted from the sum of the county's high school tuition obligation and the total of the foundation programs of all high school districts of the county.

(b) If the basic levy prescribed by this section produces more revenue than is required to finance the difference determined above, the county treasurer shall remit the surplus to the state treasurer for deposit to the state special revenue fund, state equalization aid account, immediately upon occurrence of a surplus balance and each subsequent month thereafter, with any final remittance due no later than June 20 of the fiscal year for which the levy has been set.

(2) The proceeds realized from the county's portion of the levy prescribed in this section and the revenues from the following sources shall be used for the equalization of the high school district foundation programs of the county as prescribed in 20-9-334, and a separate accounting shall be kept of these proceeds by the county treasurer in accordance with 20-9-212(1):

(a) any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's

accounts for the various sources of revenue established in this section;

(b) any federal or state moneys, including anticipated or reappropriated motor vehicle fees and reimbursement under the provisions of 61-3-532 and 61-3-536, distributed to the county as a payment in lieu of the property taxation established by the county levy required by this section; and

(c) net proceeds taxes for interim production and new production, as defined in 15-23-601."

Section 22. Section 20-9-352, MCA, is amended to read:

"20-9-352. Permissive amount and permissive levy. (1) Whenever the trustees of any district shall deem it necessary to adopt a general fund budget in excess of the foundation program amount but not in excess of the maximum general fund budget amount for such district as established by the schedules in 20-9-316 through 20-9-321, the trustees shall adopt a resolution stating the reasons and purposes for exceeding the foundation program amount. Such excess above the foundation program amount shall be known as the "permissive amount", and it shall be financed by a levy on the taxable value of all taxable property within the district as prescribed in 20-9-141, supplemented with any biennial appropriation by the legislature for this purpose. The proceeds of such an appropriation shall be deposited to the state special revenue fund, permissive account.

(2) The district levies to be set for the purpose of funding the permissive amount are determined as follows:

(a) For each elementary school district, the county commissioners shall annually set a levy not exceeding 6 mills on all the taxable property in the district for the purpose of funding the permissive amount of the district. The permissive levy in mills shall be obtained by multiplying the ratio of the permissive amount to the maximum permissive amount by 6 or by using the number of mills which would fund the permissive amount, whichever is less. If the amount of revenue raised by this levy, plus anticipated or reappropriated motor vehicle fees and reimbursement under the provisions of 61-3-532 and 61-3-536, is not sufficient to fund the permissive amount in full, the amount of the deficiency shall be paid to the district from the state special revenue fund according to the provisions of subsections (3) and (4) of this section.

(b) For each high school district, the county commissioners shall annually set a levy not exceeding 4 mills on all taxable property in the district for the purpose of funding the permissive amount of the district. The permissive levy in mills shall be obtained by multiplying the ratio of the permissive levy to the maximum permissive amount by 4 or by using the number of mills which would fund the permissive amount, whichever is less. If the

amount of revenue raised by this levy, plus anticipated motor vehicle fees and reimbursement under the provisions of 61-3-532 and 61-3-536, and plus net proceeds taxes for interim production and new production, as defined in 15-23-601, is not sufficient to fund the permissive amount in full, the amount of the deficiency shall be paid to the district from the state special revenue fund according to the provisions of subsections (3) and (4) of this section.

(3) The superintendent of public instruction shall, if the appropriation by the legislature for the permissive account for the biennium is insufficient, request the budget director to submit a request for a supplemental appropriation in the second year of the biennium. The supplemental appropriation shall provide enough revenue to fund the permissive deficiency of the elementary and high school districts of the state. The proceeds of this appropriation shall be deposited to the state special revenue fund, permissive account, and shall be distributed to the elementary and high school districts in accordance with their entitlements as determined by the superintendent of public instruction according to the provisions of subsections (1) and (2) of this section.

(4) Distribution under this section from the state special revenue fund shall be made in two payments. The first payment shall be made at the same time as the first

distribution of state equalization aid is made after January 1 of the fiscal year. The second payment shall be made at the same time as the last payment of state equalization aid is made for the fiscal year. If the appropriation is not sufficient to finance the deficiencies of the districts as determined according to subsection (2), each district will receive the same percentage of its deficiency. Surplus revenue in the second year of the biennium may be used to reduce the appropriation required for the next succeeding biennium or may be transferred to the state equalization aid state special revenue fund if revenues in that fund are insufficient to meet foundation program requirements."

Section 23. Section 20-9-501, MCA, is amended to read:

"20-9-501. Retirement fund. (1) The trustees of any district employing personnel who are members of the teachers' retirement system or the public employees' retirement system or who are covered by unemployment insurance or who are covered by any federal social security system requiring employer contributions shall establish a retirement fund for the purposes of budgeting and paying the employer's contributions to such systems. The district's contribution for each employee who is a member of the teachers' retirement system shall be calculated in accordance with Title 19, chapter 4, part 6. The district's contribution for each employee who is a member of the public

employees' retirement system shall be calculated in accordance with 19-3-801. The district may levy a special tax to pay its contribution to the public employees' retirement system under the conditions prescribed in 19-3-204. The district's contributions for each employee covered by any federal social security system shall be paid in accordance with federal law and regulation. The district's contribution for each employee who is covered by unemployment insurance shall be paid in accordance with Title 39, chapter 51, part 11.

(2) The trustees of any district required to make a contribution to any such system shall include in the retirement fund of the preliminary budget the estimated amount of the employer's contribution and such additional moneys, within legal limitations, as they may wish to provide for the retirement fund cash reserve. After the final retirement fund budget has been adopted, the trustees shall pay the employer contributions to such systems in accordance with the financial administration provisions of this title.

(3) When the final retirement fund budget has been adopted, the county superintendent shall establish the levy requirement by:

(a) determining the sum of the moneys available to reduce the retirement fund levy requirement by adding:

(i) any anticipated moneys that may be realized in the retirement fund during the ensuing school fiscal year, including anticipated motor vehicle fees and reimbursement under the provisions of 61-3-532 and 61-3-536;

(ii) net proceeds taxes for interim production and new production, as defined in 15-23-601; and

(iii) any cash available for reappropriation as determined by subtracting the amount of the end-of-the-year cash balance earmarked as the retirement fund cash reserve for the ensuing school fiscal year by the trustees from the end-of-the-year cash balance in the retirement fund. The retirement fund cash reserve shall not be more than 35% of the final retirement fund budget for the ensuing school fiscal year and shall be used for the purpose of paying retirement fund warrants issued by the district under the final retirement fund budget.

(b) subtracting the total of the moneys available for reduction of the levy requirement as determined in subsection (3)(a) from the budgeted amount for expenditures in the final retirement fund budget.

(4) The county superintendent shall total the net retirement fund levy requirements separately for all elementary school districts, all high school districts, and all community college districts of the county, including any prorated joint district or special education cooperative

agreement levy requirements, and shall report each such levy requirement to the county commissioners on the second Monday of August as the respective county levy requirements for elementary district, high school district, and community college district retirement funds. The county commissioners shall fix and set such county levy in accordance with 20-9-142.

(5) The net retirement fund levy requirement for a joint elementary district or a joint high school district shall be prorated to each county in which a part of such district is located in the same proportion as the district ANB of the joint district is distributed by pupil residence in each such county. The county superintendents of the counties affected shall jointly determine the net retirement fund levy requirement for each county as provided in 20-9-151.

(6) The net retirement fund levy requirement for districts that are members of special education cooperative agreements shall be prorated to each county in which such district is located in the same proportion as the budget for the special education cooperative agreement of the district bears to the total budget of the cooperative. The county superintendents of the counties affected shall jointly determine the net retirement fund levy requirement for each county in the same manner as provided in 20-9-151 and fix

and levy the net retirement fund levy for each county in the same manner as provided in 20-9-152."

Section 24. Section 20-10-144, MCA, is amended to read:

"20-10-144. Computation of revenues and net tax levy requirements for the transportation fund budget. Before the fourth Monday of July and in accordance with 20-9-123, the county superintendent shall compute the revenue available to finance the transportation fund budget of each district. The county superintendent shall compute the' revenue for each district on the following basis:

(1) The "schedule amount" of the preliminary budget expenditures that is derived from the rate schedules in 20-10-141 and 20-10-142 shall be determined by adding the following amounts:

(a) the sum of the maximum reimbursable expenditures for all approved school bus routes maintained by the district (to determine the maximum reimbursable expenditure, multiply the applicable rate per bus mile by the total number of miles to be traveled during the ensuing school fiscal year on each bus route approved by the county transportation committee and maintained by such district); plus

(b) the total of all individual transportation per diem reimbursement rates for such district as determined

from the contracts submitted by the district multiplied by the number of pupil-instruction days scheduled for the ensuing school attendance year; plus

(c) any estimated costs for supervised home study or supervised correspondence study for the ensuing school fiscal year; plus

(d) the amount budgeted on the preliminary budget for the contingency amount permitted in 20-10-143, except if such amount exceeds 10% of the total of subsections (1)(a), (1)(b), and (1)(c) or $100, whichever is larger, the contingency amount on the preliminary budget shall be reduced to such limitation amount and used in this determination of the schedule amount.

(2) The schedule amount determined in subsection (1) or the total preliminary transportation fund budget, whichever is smaller, shall be divided by 3 and the resulting one-third amount shall be used to determine the available state and county revenue to be budgeted on the following basis:

(a) the resulting one-third amount shall be the budgeted state transportation reimbursement, except that the state transportation reimbursement for the transportation of special education pupils under the provisions of 20-7-442 shall be two-thirds of the schedule amount attributed to the transportation of special education pupils;

(b) the resulting one-third amount, except as provided for joint elementary districts in subsection (2)(e), shall be the budgeted county transportation reimbursement for elementary districts and shall be financed by the basic county tax under the provisions of 20-9-334;

(c) the resulting one-third amount multiplied by 2 shall be the budgeted county transportation reimbursement amount for high school districts financed under the provisions of subsection (5) of this section, except as provided for joint high school districts in subsection (2)(e), and except that the county transportation reimbursement for the transportation of special education pupils under the provisions of 20-7-442 shall be one-third of the schedule amount attributed to the transportation of special education pupils;

(d) when the district has a sufficient amount of cash for reappropriation and other sources of district revenue, as determined in subsection (3), to reduce the total district obligation for financing to zero, any remaining amount of such district revenue and cash reappropriated shall be used to reduce the county financing obligation in subsections (2)(b) or (2)(c) and, if such county financing obligations are reduced to zero, to reduce the state financial obligation in subsection (2)(a); and

(e) the county revenue requirement for a joint

district, after the application of any district moneys under subsection (2)(d) above, shall be prorated to each county incorporated by the joint district in the same proportion as the ANB of the joint district is distributed by pupil residence in each such county.

(3) The total of the moneys available for the reduction of property tax on the district for the transportation fund shall be determined by totaling:

(a) anticipated federal moneys received under the provisions of Title I of Public Law 81-874 or other anticipated federal moneys received in lieu of such federal act; plus

(b) anticipated payments from other districts for providing school bus transportation services for such district; plus

(c) anticipated payments from a parent or guardian for providing school bus transportation services for his child; plus

(d) anticipated interest to be earned by the investment of transportation fund cash in accordance with the provisions of 20-9-213(4); plus

(e) anticipated motor vehicle fees and reimbursement under the provisions of 61-3-532 and 61-3-536; plus

(f) net proceeds taxes for interim production and new production, as defined in 15-23-601; plus

(g) any other revenue anticipated by the trustees to be earned during the ensuing school fiscal year which may be used to finance the transportation fund; plus

(h) any cash available for reappropriation as determined by subtracting the amount of the end-of-the-year cash balance earmarked as the transportation fund cash reserve for the ensuing school fiscal year by the trustees from the end-of-the-year cash balance in the transportation fund. Such cash reserve shall not be more than 20% of the final transportation fund budget for the ensuing school fiscal year and shall be for the purpose of paying transportation fund warrants issued by the district under the final transportation fund budget.

(4) The district levy requirement for each district's transportation fund shall be computed by:

(a) subtracting the schedule amount calculated in subsection (1) from the total preliminary transportation budget amount and, for an elementary district, adding such difference to the district obligation to finance one-third of the schedule amount as determined in subsection (2); and

(b) subtracting the amount of moneys available to reduce the property tax on the district, as determined in subsection (3), from the amount determined in subsection (4)(a) above.

(5) The county levy requirement for the financing of

the county transportation reimbursement to high school districts shall be computed by adding all such requirements for all the high school districts of the county, including the county's obligation for reimbursements in joint high school districts.

(6) The transportation fund levy requirements determined in subsection (4) for each district and in subsection (5) for the county shall be reported to the county commissioners on the second Monday of August by the county superintendent as the transportation fund levy requirements for the district and for the county, and such levies shall be made by the county commissioners in accordance with 20-9-142."

NEW SECTION. Section 25. Extension of authority. Any existing authority of the department of revenue or the board of oil and gas conservation to make rules on the subject of the provisions of this act is extended to the provisions of this act.

NEW SECTION. Section 26. Codification instruction. Section 18 is intended to be codified as an integral part of Title 15, chapter 23, part 6, and the provisions of Title 15, chapter 23, part 6, apply to section 18.

NEW SECTION. Section 27. Coordination instructions. (1) If either Senate Bill No. 262 or Senate Bill No. 66 and this act are passed and approved, Senate Bill No. 262 or

Senate Bill No. 66 are void.

(2) If both this act and ___ Bill No. ___ [LC 950] are not passed and approved, section 10(3)(a)(ii) is void.

NEW SECTION. Section 28. Effective date -- applicability. This act is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to taxable years beginning on or after January 1, 1987.

-End-

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for SB383 , as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act defining "interim production" of petroleum, oil, and natural gas; revising the definition of "new production" of petroleum, oil, and natural gas; extending the uniform tax rate of net proceeds taxation to interim production and refined new production; providing an exemption from net proceeds taxes for 24 months for new production of natural gas, petroleum, and oil wells; providing for the prorating of deductions to determine net proceeds; providing for the quarterly payment of interim production and new production net proceeds taxes; revising the definition of "taxable valuation" as it applies to the county classification; and providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:

1. The taxable value of the state will be $1,997,193,000 in FY88 and $2,024,661,000 in FY89 (REAC).
2. New oil and gas production, as referred to in the proposed law, will remain constant at the estimated 1986 level of 518,196 bbl. for oil, and 812,495 mcf. for gas.
3. In FY88, the price of oil will be $14.799 per bbl. and the price of gas will be $2.046 per mcf. In FY89, the price of oil will be $16.48 per bbl. and the price of gas will be $2.302 per mcf (REAC).
4. The university mill levy is 6 mills; the school equalization mill levy is 45 mills; the average levy for local government purposes is 79 mills. New oil and gas production net proceeds taxes are distributed in proportion to relative mill levies.
5. The proposed law applies to new oil and gas production after January 1, 1987. It allows a net proceeds tax exemption for 24 months.
6. The proposal would affect one quarter of FY87 collections.
7. The proposal has no effect on the net proceeds taxes on current new production (interim production in the proposal).

FISCAL IMPACT:

	FY88			FY89		
Revenue Impact:	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
University Levy	$ 11,983,158	$ 11,941,175	($ 41,983)	$ 12,147,966	$ 12,064,067	($ 83,899)
School Equalization	89,873,685	89,554,812	(318,873)	91,109,745	90,476,506	(633,239)
TOTAL	$101,856,843	$101,495,987	($360,856)	$103,257,711	$102,540,573	($717,138)

The impact in FY87 would be 25% of FY88 or approximately $72,000.

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

The proposed law would result in local net proceeds revenue losses totaling approximately $111,861 in FY87, $559,304 in FY88, and $1,111,192 in FY89.

David L. Hunter DATE 2/26/87
DAVID L. HUNTER, BUDGET DIRECTOR
Office of Budget and Program Planning

DATE
DELWYN GAGE, PRIMARY SPONSOR

Fiscal Note for SB383, as introduced.

SB 383

STATUS SHEET

50th LEGISLATIVE SESSION

TAXATION COMMITTEE

SENATE BILL NUMBER	ENTERED COM. DATE	DATE CONSIDERED	OUT OF COM.	DO PASS DATE	DO NOT PASS DATE	DO PASS AS AMENDED DATE	DO NOT PASS AS AMENDED DATE	BE CONCURRED IN DATE	BE NOT CONCURRED IN DATE	BE CONCURRED IN AMENDED DATE	BE NOT CONCURRED IN AS AMENDED DATE
272	3/3/87	3/25/87								4/8/87	
297	2/24/87	3/18/87							4/6/87		
325	3/13/87	3/30/87						4/6/87			
335	3/3/87	3/26/87						4/3/87			
337	3/9/87	3/27/87								4/6/87	
340	3/13/87	3/30/87								4/7/87	
377	3/12/87	3/26/87							4/7/87		
378	3/3/87	3/26/87	4/7/87	tabled							
383	3/17/87	4/03/87								4/8/87	
389	3/13/87	3/30/87								4/7/87	
390	3/17/87	4/03/87								4/10/87	

:e a separate sheet for Senate Bills, House Bills, and Resolutions.

CONSIDERATION OF SENATE BILL 383:

Senator Del Gage, Senate District #5, sponsor of SB 383, said the bill introduces incentives, by exempting net proceeds for new wells drilled after December 31, 1986. He said SB 383 does nothing for existing wells or on-line production up to that date. Senator Gage elaborated on the incentive programs offered in Alberta, Canada, where $2 billion is used for incentives, including reimbursement for drilling costs, and on incentives offered in Wyoming. He said these are the programs Montana is competing against for drilling and exploration dollars. Senator Gage gave an overview of the bill, expounding on section 10 which pertains to interim production and section 11 which defines new production and the interim period.

Senator Gage proposed to amend page 43, section 28, changing the effective date from January 1, 1987 to April 1, 1987. He explained that the fiscal note is based upon five quarters instead of four, adding that if the figures presented with the bill were cut in half, they would reflect a more realistic revenue picture.

PROPONENTS OF SENATE BILL 383:

William Ballard, Balcron Oil Company, Billings, stated only 2% of the total area available for exploration had been tapped in Montana. He provided information comparing Montana and Wyoming wells drilled between 1979 and 1986, their average daily production (Exhibit #3). He added that the production level of his company could double and triple, from the proposed incentives. He said each well drilled creates about 53 jobs, aside from development and administration.

Bill Voit, Vice President, Independent Petroleum Producers, Rocky Mountain States, spoke on the incentives being offered by Wyoming, and said his organization has 22 working rigs in Wyoming, six in Montana. He urged support of this legislation as an incentive for exploration and drilling in Montana.

Jim Brenner, North American Resources, called the legislation an incentive to work, noting that high taxes and economic climate in the state do not make it profitable for the oil industry to grow in the state. He stated Alberta's successful drilling assistance program is similar to SB 383, adding that even with the drop in oil prices, the same number of wells were drilled in 1986, as in 1985, under that program. He asked that the legislation not be considered a break

for the oil industry but as a work incentive/job promotion bill.

Les Fuglevand, Can-American Drilling Fluids stated there were 35 to 40 companies that supplied drilling companies in the state, but now only 6 remain with some employees working on a part-time basis. He said others are leaving the state to find employment, making a dismal future for the few companies that are left. He said because of the tax structure in Mt, companies can realize a better rate of return in other states. Mr. Fuglevand asked that SB 383 be considered a jobs bill to create long-term, high-paying employment.

Jerome Anderson, Shell Oil, said that should SB 383 pass, oil companies would see property tax relief whereby only $17,000 of their expenses would be property tax, while $280,000 would still be paid in other taxes.

Doug Abelin, Montana Oil and Gas Association, advised that the oil industry is the 13th highest taxpayer in Glacier County, and pays $112,000 in taxes. He stated these small producers are suffering as a result of the net proceeds tax.

PROPONENTS OF SENATE BILL 383:

Ward Shanahan, Chevron
John Augustine, Conoco-Dupont
Stuart Doggett, Montana Chamber of Commerce
Senator Larry Tveit
Don Lee, Montana Oil and Gas Association
Janelle Fallan, Independent Petroleum Association of Mountain States
Conrad Burns, Yellowstone County Commissioner

All stated their support of SB 383.

OPPONENTS OF SENATE BILL 383:

Hershel Robbins, Montana Association of Oil, Gas & Coal Counties, Inc., stated the one year moratorium and loss of funding proposed by SB 383, would contribute to unresolved problems for counties, which cannot absorb further loss of revenue. He questioned how abandoned or plugged wells, oil price escalation, and revenue loss would be addressed by the moratorium.

Gordon Morris, Montana Association of Counties (MACO), stated his association doesn't disagree with the incentives, but is concerned about the impact such a moratorium would have on counties. He said SB 377 provides for an incentive

of $3.25 million dollars, which has more merit than SB 383. Mr. Morris asked what the industry was doing in support of a sales tax.

CLOSING ON SENATE BILL 383:

Senator Gage said the bill was designed to create jobs and asked that the exemption remain at 12 months, instead of being amended back to 24 months.

ADJOURNMENT: There being no further business before the Committee, the meeting was adjourned at 10:25 a.m.

Jack Ramirez

Jack Ramirez, Chairman

jr/gmc/4

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 2/16/87

NAME	PRESENT	ABSENT	EXCUSED
REP. RAMIREZ	✓		
REP. ASAY	✓		
REP. ELLISON	✓		
REP. GILBERT			✓
REP. HANSON	✓		
REP. HARP	✓		
REP. HARRINGTON	✓		
REP. HOFFMAN	✓		
REP. KEENAN	✓		
REP. KOEHNKE	✓		
REP. PATTERSON	✓		
REP. RANEY	✓		
REP. REAM	✓		
REP. SANDS	✓		
REP. SCHYE	✓		
REP. WILLIAMS	✓		

TELEPHONE 259-7860
AREA CODE 406

845 12TH STREET WEST
P. O. BOX 20174

BALCRON OIL COMPANY

BILLINGS, MONTANA 59104

W W BALLARD W R CRONOBLE

March 31, 1987

House Taxation Committee

Geologically speaking, Montana is a tremendous area in which to explore for oil and gas. In the 70 year history of the industry in this state, we have produced 1.2 billion barrels of oil and about 2.2 trillion cubic feet of gas, and this production came from exploration efforts in about 2% of our potentially productive area. Although we have experienced periods of increased activity, Montana has never gone through a true "oil boom" as have other areas with similar potential. Our lack of development is principally due to our taxation policies relative to those of other states and provinces. North Dakota and Wyoming as well as the rest of the producing states in the west, and the province of Alberta, have passed tax incentives during 1987 which are aimed at increasing exploration activity in their area. Unless we do likewise, the Montana independent will again be faced with attempting to bring exploration money into the State under very adverse circumstances.

Montana Oil and Gas Commission statistics show that we have lost 280,346 barrels of oil per month during 1986 as compared to 1985. This loss is due to normal decline and very low drilling activity (see charts). In addition, this year has seen the abandonment of 379 stripper wells for economic reasons. This will be a significant loss to the State in future tax revenue.

Senate Bill 383 will not affect revenue from existing wells. It will, however, cause new wells to be drilled which will provide net proceeds revenue for most of their productive life. This is a positive fiscal impact! New drilling creates new production, new jobs, (see table) and therefore new revenue to the State. All Montanans will benefit by passage of this bill.

W. W. Ballard

W. W. Ballard

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AREA CODE 406

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BALCRON OIL COMPANY

BILLINGS, MONTANA 59104

W W BALLARD W R CRONOBLE

JOBS CREATED BY ONE NEW DRILLING OPERATION

Drilling Phase

Surveyor and rod man	2
Cat operator	1
Drilling crew	13
Water haulers	2
Geologist	1
Petroleum engineer	1
Mud engineer	1
Loggers	3
Cementers	2
Testers	1
Total	27

Completion Phase

Pipe salesman	1
Roustabout crew	4
Petroleum engineer	1
Cementers	2
Completion crew	3
Acid crew	1
Frac crew	10
Total	22

Producing Operations

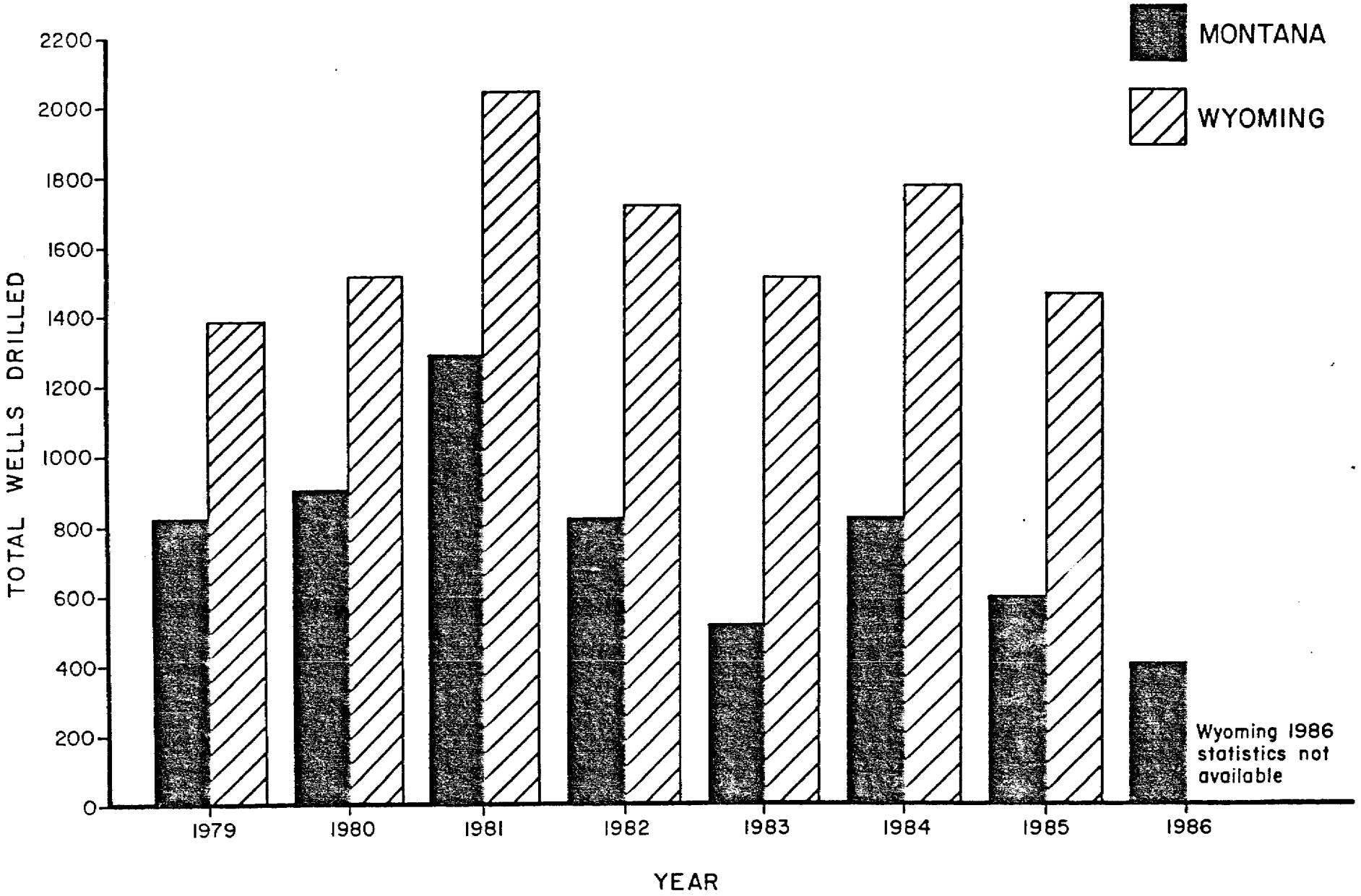
Pumper	1
Workover crew	3
Total	4

Total New Jobs	53

(Above list does not include landmen, geologists, seismic crews, geophysicists, accountants, secretaries, etc. that are involved with developing the prospects and doing the necessary paper work after completion.)

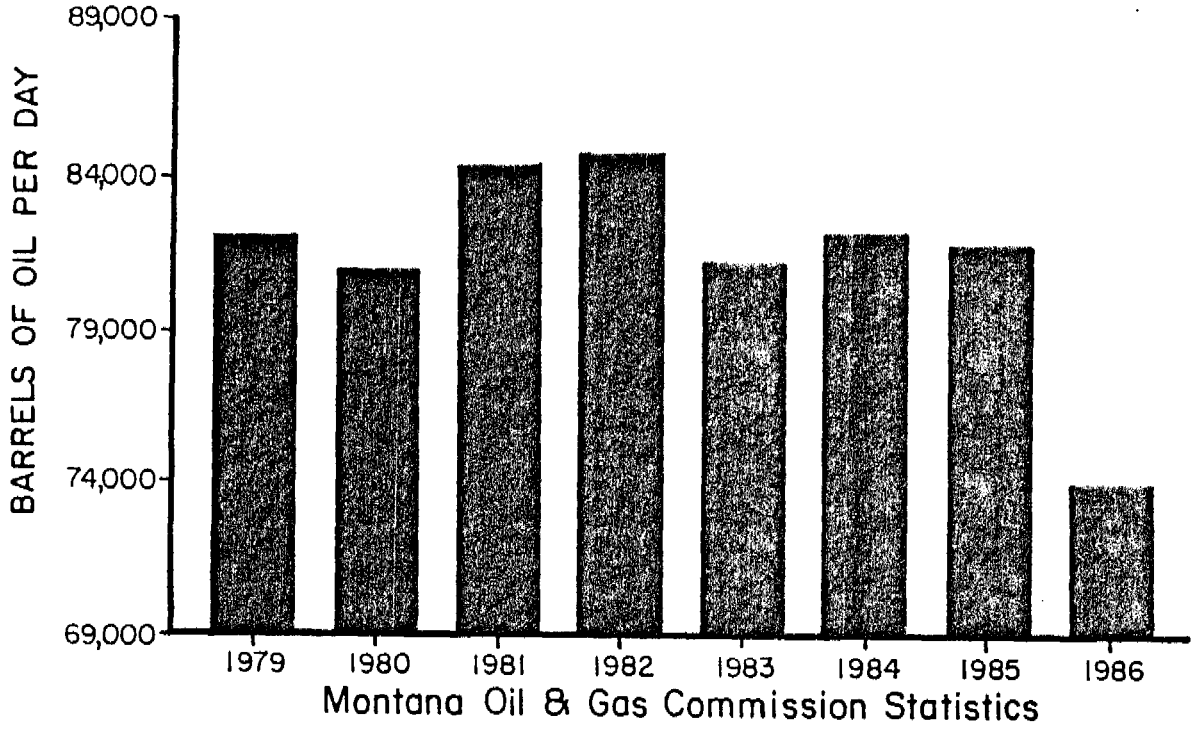
MONTANA and WYOMING

TOTAL WELLS DRILLED BY YEAR



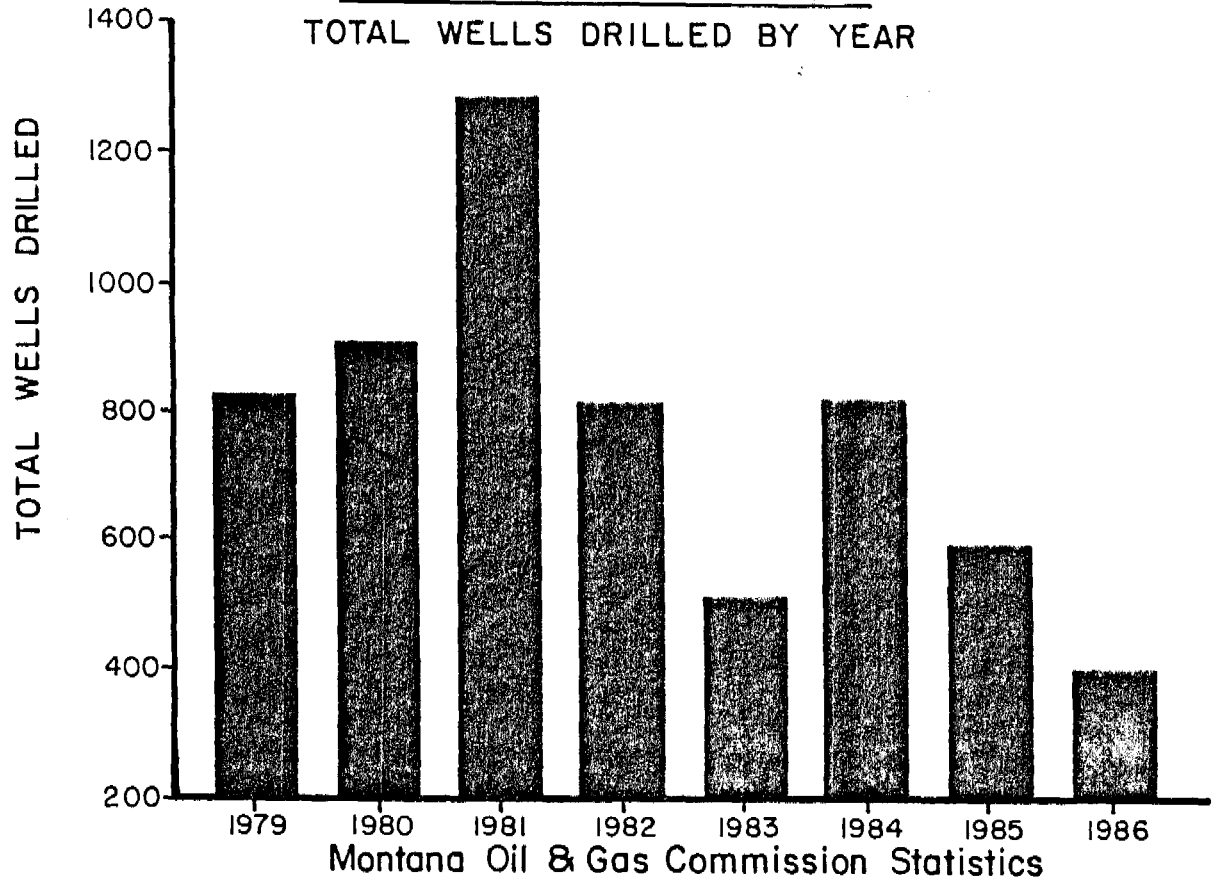
STATE OF MONTANA

AVERAGE DAILY PRODUCTION BY YEAR



STATE OF MONTANA

TOTAL WELLS DRILLED BY YEAR



VISITORS' REGISTER

House Taxation COMMITTEE

BILL NO. SB 383 DATE April 3, 1987

SPONSOR Gage

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Dist. #4 & Coal Counties	Roundup, MT.		✓
WARD SHANAHAN	CHEVRON	↘	✓
Gordon Morris	MMC.		
Stuart Doggett	Mt. Chamber of Commerce	✓	
Harold Hide	CENEX	✓	
W. W. Ballard	Ballard	X	
Jim Bremer	North American Resources	✓	
Carl Swanson	Western Natural Gas	X	
Dan R. Lee	Montana Oil & Gas Assoc	X	
Ross Abelin	Mon Dak Oil & Gas Assoc	✓	
Peter Fielland	Mon Dak Oil & Gas Assoc	X	
Brian D. Hattel	Western Natural Gas	X	
John Augustine	Conoco - Du Pont	X	
W M Hatch Jr	Indep Pet Assoc Mtn States	X	
Jamelle Fellows	MT Petroleum	X	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

CS-33

Rep. Hoffman asked what the state's liability problem would be. Chairman Ramirez replied liability is usually the responsibility of the lessee.

Rep. Raney made a motion that SB 272 BE CONCURRED IN AS AMENDED. The motion CARRIED unanimously.

DISPOSITION OF SENATE BILL NO. 150: Rep. Hanson made a motion that SB 150 BE CONCURRED IN.

Rep. Williams asked Chairman Ramirez how SB 150 would fit with his bill. Chairman Ramirez replied it does the same thing, but for a completely different reason.

Rep. Williams asked if the bill requires that DOR provide new information on realty transfer certificates to the public. Chairman Ramirez advised that information might be difficult for individuals to obtain on their own.

Rep. Patterson stated DOR does not accept any appraisals other than its own.

Rep. Raney commented it is not worth $800,000 in taxpayer dollars, and that that bill he and Chairman Ramirez co-sponsored would take care of the problem.

Chairman Ramirez advised that all sales assessment ratios should be taken out of SB 150, because they are covered in the Ramirez-Raney bill, and most of the cost of SB 150 is in this area. He commented that the remainder of the bill would cost very little to administer.

Rep. Hoffman stated he didn't believe SB 150 is justified, because the information can be obtained from an appraisal office. Rep. Gilbert replied assessments won't show figures, and that it is not that simple.

Rep. Hoffman advised the records are required to be made public. Chairman Ramirez replied that DOR may not reveal exact names or location of property.

Rep. Hoffman made a motion to TABLE SB 150. The motion CARRIED unanimously.

DISPOSITION OF SENATE BILL NO. 383: Rep. Hanson made a motion that SB 383 BE CONCURRED IN.

Chairman Ramirez stated the fiscal note assumes new production, and that the bill has been amended to half the amount stated in the fiscal note, but he believes it really won't stimulate any new production. He said the bill does not address long-range benefits for the exemption for the

first 12 months, and that he has a note that after the first year, it would be a wash.

Chairman Ramirez made a motion to amend the effective date to wells drilled after April 1, 1987. The motion CARRIED unanimously.

Rep. Hanson made a motion that SB 383 BE CONCURRED IN AS AMENDED. The motion CARRIED with all members voting aye, except Reps. Williams, Schye, Keenan, Harrington, Koehnke, Ream, and Raney, who voted no.

DISPOSITION OF SENATE BILL NO. 22: Rep. Harp advised the bill would create additional risk capital and would increase credit from 25 to 50 percent, or up to $150,000 between July 1, 1987, and June 30, 1989. He explained this amount is not to exceed $3 million, but could be continued to June 30, 1991, if the $3 million in credit is exceeded.

Rep. Harp stated 25 percent of the capital corporations would be investments outside Montana, and offered an amendment (Exhibits #1 and #2), to tighten up outside investments. He suggested the Committee strike "certify" and insert "qualify " on page 7, line 25, and page 8, lines 7 and 14.

Rep. Harp made a motion that SB 22 BE CONCURRED IN, and made a motion that the proposed amendment be approved. He advised that $1,200 in tax credit creates one job in Montana. The motion CARRIED unanimously.

Rep. Harp made a motion that the remaining proposed amendments (Exhibit #2) be approved. The motion CARRIED unanimously.

Chairman Ramirez advised he was concerned with the $1.2 million fiscal impact to local governments, and suggested an amendment to reimburse local dollars, for 100 percent general fund impact.

Dick Bourke, Product Development Corporation, advised the Committee that Senator Van Valkenburg had made calls and found this was not an issue. He stated his company intends to make a public offering of stock and not go to financial institutions, as allowed in the bill.

Chairman Ramirez asked if no minimum investment was required. Mr. Bourke replied there was no minimum investment and that investors would get credit on only one-half of their investment. He stated that, at last report, there were 104 financial institutions that are

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date April 8, 1987

NAME	PRESENT	ABSENT	EXCUSED
REP. RAMIREZ	✓		
REP. ASAY	✓		
REP. ELLISON	✓		
REP. GILBERT	✓		
REP. HANSON	✓		
REP. HARP	✓		
REP. HARRINGTON	✓		
REP. HOFFMAN	✓		
REP. KEENAN	✓		
REP. KOEHNKE	✓		
REP. PATTERSON	✓		
REP. RANEY	✓		
REP. REAM	✓		
REP. SANDS	✓		
REP. SCHYE	✓		
REP. WILLIAMS	✓		

STANDING COMMITTEE REPORT

APRIL 3 19 87

Mr. Speaker: We, the committee on HOUSE TAXATION

report SENATE BILL NO. 323

☐ do pass ☒ be concurred in ☒ as amended
☐ do not pass ☐ be not concurred in ☐ statement of intent attached

Representative Jack Ramirez, Chairman

Be amended as follows:

1. Page 43, line 9
   Following: "taxable"
   Strike: "years"
   Insert: "quarters"
   Following: "after"
   Strike: January 1"
   Insert: "April 1"

THIRD reading copy (BLUE)
color

MONTANA LEGISLATIVE COUNCIL BILL STATUS SYSTEM
FINAL COMMITTEE REPORT OF REFERRED BILLS
COMMITTEE--(S) TAXATION

CHAIRMAN--SEN. GEORGE MCCALLUM
NORMAL SCHEDULE==> SITE: ROOM 413/415 DAYS: MON THRU FRI TIME: 8:00 A.M.
SECRETARY-AGGIE HAMILTON

BILL NO	REFER DATE	HEARING DATE	CONSIDERATION DATES	COMMITTEE ACTION	REREFERRED TO COMM	DATE OUT
SB0383	2/19	3/03		PASS AS AMENDED		3/6
GAGE, DELWYN			NEW PRODUCTION AND STRIPPER WELL EXEMPTION FROM NET PROCEEDS TAXES			
SB0384	2/19	3/05		PASS AS AMENDED	TAXATION	3/13
MCCALLUM, GEORGE			REVISES THE DEFINITION OF GROSS VALUE OF PRODUCT FROM METAL MINES			
SB0384	3/14			PASS AS AMENDED		4/13
MCCALLUM, GEORGE			REVISES THE DEFINITION OF GROSS VALUE OF PRODUCT FROM METAL MINES			
SB0386	2/20	3/05		TABLED 3/9		
KEATING, THOMAS F.			REPEAL PERSONAL PROPERTY TAXES, CAP ON REAL PROPERTY AT 1% OF MARKET VALUE			
SB0387	2/20	3/04	3/6	TABLED 3/13		
ECK, DOROTHY			MAKE TAX PAYMENT PERIOD MORE FREQUENT FOR WITHHOLDING COAL, OIL, & GAS TAXES			
SB0389	2/25	3/06		PASS AS AMENDED		3/10
MCCALLUM, GEORGE			INCREASE ANNUAL LICENSE TAX FEE ON VEHICLES POWERED BY LIQUIFIED PETRO. GAS			
SB0390	3/04	3/09		PASS AS AMENDED		3/13
MCCALLUM, GEORGE			REVISE TAXATION OF 20 ACRE OR LARGER PARCELS OF LAND			
SB0391	3/06	3/10		TABLED 3/13		
CRIPPEN, BRUCE D.			SET MAXIMUM ASSESSMENT OF PROPERTY IN CLASS 4, 12, & 14 BASED ON 1985 VALUES			
SB0392	3/06	3/10		TABLED 3/13		
ECK, DOROTHY			REVISING PERSONAL PROPERTY TAX ASSESSMENT			
SB0393	3/06	3/10		TABLED 3/13		
ECK, DOROTHY			REQUIRE MINIMUM INCOME TAX -- PERCENTAGE OF FEDERAL MINIMUM INCOME TAX			
SB0394	3/09	3/13		TABLED 3/13		
GAGE, DELWYN			REVISE TAXES ON REAL & PERSONAL PROP. TO DELETE CERTAIN TAXES ON PERS. PROP.			

Jim Lear said that Greg Petesch has said the amendments deal with that part of the bill.

Senator Gage closed by stating in many instances the new production will be on wells that do not have any old production on them.

ACTION ON SB 66: Senator Crippen would move that the committee adopt the amendments to SB 66 presented by Senator Gage and attached as Exhibit 1. The motion carried.

CONSIDERATION OF SB 383: Senator Gage, Senate District 5, presented this bill to the committee. He said this is a somewhat long bill but most of what is in the bill is a very short part of the bill. This bill allows a 24 month exemption for new production of oil and gas from net proceeds. He pointed out the fact that on the fiscal note on number 7 it says the proposal has no effect on the net proceeds taxes on current new production. Net proceeds will continue to be paid on those wells just as it is at present. The only oil or gas that will be affected by this bill are wells that are completed and go into production after December 31, 1986. The fiscal note assumes the oil and gas will be at the same level that it was in 1986. He would point out that is only an assumption and nobody knows what will happen in the current year. Drilling rigs are down from what they were most of 1986. There is not a lot of activity at the present time. He figures the fiscal note is off a minimum of 13%. He went through the bill with the committee. He explained that interim production was used in the bill since this bill is effective after December 31, 1986 and we had to designate that oil that qualified for new production during that period of time, even though it is subject to the same tax. The definitions are given on pages 11 and 12. The definitions on page 11 also deal with what will qualify. The new language on page 18, paragraph (4) tells how to determine net proceeds. In conclusion, this bill will give oil and gas operators a reason to come into Montana and be a part of our economy. It will create jobs and tax revenues for the counties and the state of Montana.

PROPONENTS: William Ballard, Balcrom Oil Company, Billings, gave testimony in support of this bill. He said this bill is a major incentive that will bring in exploration dollars to the state of Montana. His written statement is attached as Exhibit 2. He displayed a map for the committee showing how oil exploration has flourished outside the borders of Montana in certain areas and stops at the Montana border.

Pete Madison, Entech Oil Division, gave testimony in support of this bill. He said this bill is an incentive to work. He participated in determining 55 wells for the Entech Oil Division, 26 of which were in Canada, and 29 in the United States, of which only 3 were in Montana. He said we are a Montana corporation made up of Montana people and we would like to drill in Montana. They have more projects available to them than they have money. They rank the projects and drill only the best. The projects are ranked in terms of economics. Last year Alberta instituted an incentive program for a five year royalty holiday with drilling asset incentives. As a result of those incentives, you could not get a drilling rig into Alberta the last half of 1986 as they were all busy. Royalty is the same as tax. Our decision is not whether to drill but where to drill. He would ask that this bill be considered not as an incentive for the oil industry but as what this can do for the state. This bill will help Montana and he thinks will help Entech keep some of its money in Montana.

Stephen R. Granzow, Meadowlark Search, gave testimony in support of this bill. A copy of his statement is attached as Exhibit 3.

Harold Ude, representing Cenex, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 4.

Ward Shanahan, representing Chevron Company, gave testimony in support of this bill. A copy of his statement is attached as Exhibit 5.

Janelle Fallan, representing the Montana Petroleum Association, gave testimony in support of this bill. She furnished the committee with a graph entitled "Montana Oil Production, Value, Price and Tax Revenue, 1978-1989", a "Montana Petroleum Fact Sheet", a list of "Montana Drilling Rig Count By Week" and an article from the Independent Record, February 18, 1987, entitled "Long gas lines will return". This information is attached as Exhibit 6. She reviewed information contained in these graphs and lists with the committee.

Stuart Doggett, representing the Montana Chamber of Commerce, gave testimony in support of this bill. He believes this bill will be an incentive to keep this very important industry from leaving the state.

Tom Staples, Montana Trade Commission, gave testimony in support of this bill. He supports this bill on the concept that it will provide overall, long term, economic benefit to the state.

OPPONENTS: Hershel M. Robbins, representing the Association of Oil, Gas, and Coal Counties, gave testimony in opposition to this bill. A copy of his written statement is attached as Exhibit 7.

William Duffield, representing Fallon County, gave testimony in opposition to this bill. He is concerned that if this bill is passed, that the product from the third stage of recovery will be classified as new production. He believes the bill should be spelled out to insure that this stage of recovery is not classified as new production. The impact of the bill would be of such a magnitude that it would devastate his county if not specifically clear as to what new production would apply to. Whenever there is an influx of production, where drilling takes place, there is an impact on the people of the community and he doesn't think we should take away net proceeds completely.

QUESTIONS FROM THE COMMITTEE: Senator Eck asked Mr. Duffield what part of the net proceeds generally comes from what would be classified as new production.

Mr. Duffield said he thought in the last couple of years there hasn't been very much.

Senator Eck asked how much was strippers.

Mr. Duffield said probably 30%.

Senator Lybeck referred to the map demonstrated by Mr. Ballard and said that certainly indicates that the Montana border does have a bearing. In looking at the Popular area, he asked why that was so extensive.

Mr. Ballard said the Popular area has many, many more prospects similar to what you see in North Dakota.

Senator Crippen said the reference was made to Alberta and evidently Alberta is back in the oil business again. He asked Mr. Ballard if there was a time, not too long ago, where, through their legislative policy, oil production had really dropped off in Alberta.

Mr. Ballard said it is his understanding that the tax was raised excessively over what it is on this side of the border and a number of drilling rigs moved south.

Pete Madison said in 1978 the Canadian government, under Trudeau, enacted the National Energy Program and basically what that program did was put additional tax and royalty burdens on the oil industry. In addition, if you paid

royalties they were not deductible from federal income tax and you also paid income tax on the revenue to the federal government. This virtually destroyed the oil business in Canada until the Trudeau government was out and things turned around.

Senator Eck asked Janelle Fallan if she would have any objection of putting a top limit on this. If the oil goes up to $80 then we would sunset this.

Janelle Fallan said if you set it at $80, then probably not. She does have a problem with sunsetting this. She said we need to recognize that Montana is a high tax state, our oil and gas tax is the highest in the nation. The industry needs to know what they are dealing with for stability and if you want to start new projects, investors are saying what is your tax rate going to be. To sunset this at a certain level would make it more difficult to get the kind of investment the state desperately needs.

Senator Gage closed by stating what is being relinquished is production that doesn't currently exist. The counties will still retain the net proceeds tax they are currently getting and have been getting in the past.

CONSIDERATION OF SB 381: Senator Severson, Senate District 32, presented this bill to the committee. He said this bill basically leaves our present tax system in its exact same form but sets an upper limit cap of how far you can go in property taxation. You can bump up against that cap but you can't go through it. In relation to CI-27 and I-105, this is an attempt to head off another rebellion. He considers this to be somewhat like California's proposition 13. He is not sure 1.5% is right, he is almost of the opinion 1.25% might be correct. He said this applies to everything that is taxed at a taxable vlue of 3.86% and this bill may need to be amended. His only intention with this bill was to make it apply to property taxable at the 3.86%, houses, commercial buildings and land. An amendment was furnished to the committee and is attached as Exhibit 8. He provided the following information on the chalkboard: $100 X 3.86% = $3.86 X 390 mills = 1.5%, 350 mills = 1.35%, 325 mills = 1.25%, 300 mills = 1.15% and 263 mills = 1%.

PROPONENTS: None.

OPPONENTS: Gordon Morris, Montana Association of Counties, gave testimony in opposition to this bill. He said this is the third bill that basically does the same thing, SB 386, HB 395 and this bill. He feels one of the flaws with I-105 is that it is forcing the legislature to do something that they might regret ultimately. He would hope that the legislature would find a rational, reasonable approach that

ROLL CALL

TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 3-3-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

SENATE Taxation COMMITTEE

BILL SB 66 SB 383 SB 381 VISITORS' REGISTER DATE 3-3-93

Please note bill no. (check one)

NAME	REPRESENTING	BILL #	SUPPORT	OPP
Stephen R Emerson	Meadowlark Search	383	✓	
Donald Ida	CENEX	383	✓	
W.W. Ballard	Balcron	383	✓	
Danielle Fallan	MT Petroleum	383	✓	
Marshal Rafalson	Oil & Gas & Coal Coalition	66		✓
" "	" " " "	383		✓
Terry Wilson	Montana Power		✓	
Pete Madison	Entech Oil Division	383	✓	
William Daffinbaugh	Fallon Co	383		✓
Gordon Morris	MACo	381		✓
Eric Feaver	MEA			
Lynn Cheney	DOR	66 383		
Wyatt Nicholas	Chevron	383	✓	
Shannon Hill	MT Administration	643	✓	
Jim Nugent	City of Missoula	SB 381		✓
Stuart Doggett	MT Chamber of Commerce	SB 387	✓	
Terry Minow	MT Ed Teachers			
Dave Hanson	MLCT	381		✓
Jerome Anderson	Self	383 66	✓	
Mike Micone	MEIC	383 C.O.	✓	
Jack Padon Jr.	Norfolk (Tricentrol)	383 66	✓	
Doug Abelin	Mont Oil & Gas Assoc	383 66	✓	

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY

TELEPHONE 259-7860
AREA CODE 406

845 12TH STREET WEST
P. O. BOX 20174

BALCRON OIL COMPANY

BILLINGS, MONTANA 59104

W W BALLARD

W R CRONOBLE

March 2, 1987

Senate Taxation Committee
Capitol Station
Helena, MT 59620

Geologically speaking, Montana is a tremendous area in which to explore for oil and gas. In the 70 year history of the industry in this state, we have produced 1.2 billion barrels of oil and about 1.2 trillion cubic feet of gas, and this production came from exploration efforts in about 2% of our potentially productive area. Our lack of development is principally due to our taxation policies on oil and gas.

Senate Bill 390, passed in 1985, was the most positive piece of legislation passed during my working life as a Montana independent (which dates back to 1963). This bill made our oil and gas tax structure closer to that in our neighboring states of North Dakota and Wyoming, although we are still higher than either. Both these states, as well as the rest of the producing states in the west, are considering tax incentives during 1987 which are aimed at increasing exploration activity in their area. Unless we do likewise, the Montana independent will again be faced with attempting to bring exploration money into the State under very adverse circumstances.

Montana Oil and Gas Commission statistics show that we have lost 280,346 barrels of oil per month during 1986 as compared to 1985. This loss is due to normal decline and very low drilling activity (Historically, we have drilled enough new wells each year to offset decline.) In addition, this year has seen the abandonment of 379 stripper wells for economic reasons. This will be a significant loss to the State in future tax revenue.

Senate Bill 383 will not affect revenue from existing wells. It will, however, cause new wells to be drilled which will provide net proceeds revenue for most of their productive life. New drilling creates new production, new jobs and therefore new revenue to the State. All Montanans will benefit by passage of this bill.

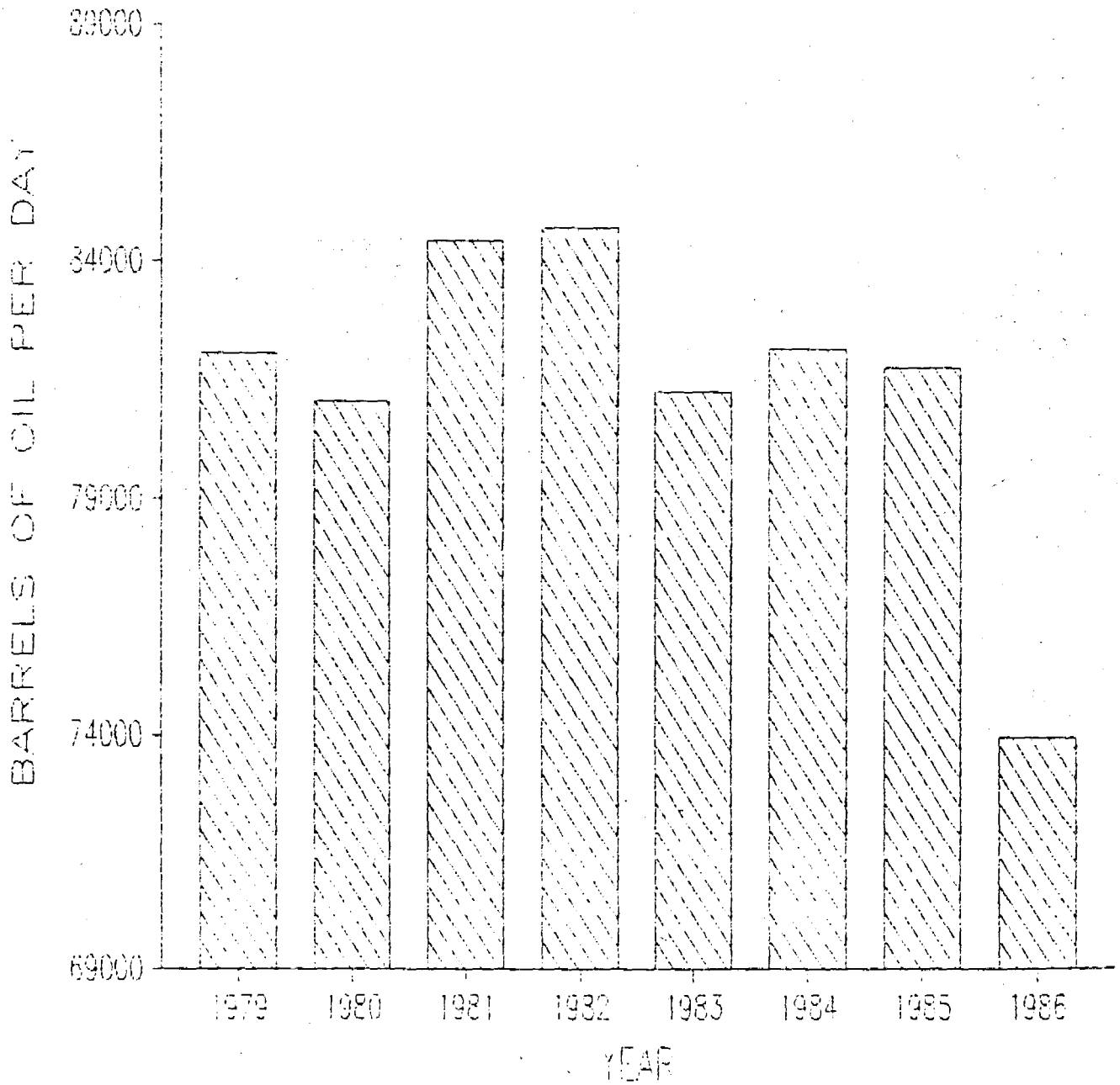
W. W. Ballard

W. W. Ballard

SENATE TAXATION
EXHIBIT NO. 2
DATE 3-3-87
BILL NO. SB383

STATE OF MONTANA

AVERAGE DAILY PRODUCTION BY YEAR



NAME: Stephen P Brown DATE: 3-3-87

ADDRESS: [illegible]

PHONE: 227-5213

REPRESENTING WHOM? Woodworkers Assn

APPEARING ON WHICH PROPOSAL: SB 383

DO YOU: SUPPORT? ✓ AMEND? _____ OPPOSE? _____

COMMENTS: attached

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 3
DATE 3-3-87
BILL NO. SB 383

Meadowlark Search
Oil·Gas·Minerals

March 3, 1987

STEPHEN R. GRANZOW

Senate Taxation Committee

Mister Chairman and Members of the Committee

I am an independent landman, living in Helena. My work in the State of Montana depends on oil and gas exploration.

Work in oil and gas exploration in the State of Montana has been declining rapidly. My work is down to almost nothing in the State of Montana for oil and gas exploration work. The drop of the world wide price of crude oil has had a effect, but is not the only factor in Montana causing the decline.

Oil and gas companies are multi state. The price decline is making companies look closely at every cost in each State before they start exploration and drilling. The cost of drilling is relatively the same through out the Rocky Mountain Area. The costs of the extras(state policies) determine where the next exploration, drilling and possible production will be located. The attractiveness of Montana for oil and gas exploration and drilling is already low due to State Policies.

The number of drill rigs in neighboring States and Canada compared to the number in Montana shows the effect. Some of these States are already working to lower their tax rates even further. Montana must show the oil and gas industry that we are acting aggressively.

Senate Bill No. 383 provides an incentive to the Oil and Gas Industry.

The first 24 month waiver from the net proceeds tax on production from new wells will give a good incentive to the Industry.

Montana has to act or get left further behind in exploration, drilling and production.

The waiver only affects new production. The waiver will not cut existing tax revenues. Existing production will continue to pay severance(except strippers) and net proceeds taxes, in addition to the conservation tax, resource indemnity trust tax and corporate license tax.

I urge you to pass **Senate Bill No. 383.** Creating one element that will bring exploration, drilling and Jobs to the State of Montana

Thank you

Stephen R. Granzow

Stephen R. Granzow

3045 Meadowlark Drive East Helena, MT 59635 (406) 227-5613

SENATE TAXATION
EXHIBIT NO. 3
DATE 3-3-87
BILL NO. SB 383

CENEX • Post Office Box 21479 • 1601 Lewis Ave. • Billings, Montana 59104 • (406) 245-4747

SENATE TAX COMMITTEE
Capitol Building, Helena, Montana
March 3, 1987
SB-383

My name is Harold Ude. I represent CENEX. CENEX is an integrated independent oil company with exploration and production headquarters in the Billings area for more than 40 years. CENEX has been drilling and producing oil and gas in Montana since 1946. At present, CENEX ranks as the 15th largest producer in the state and the 53rd largest oil producer in the nation.

Montana is attempting to be recognized as a natural resources state. To do so, an effort must be made to alert industry that it is wise to make investments here. It is common knowledge that the rate for drilling new holes to locate and produce oil and gas has dropped to historic lows. The national number is currently down 35% from a record low 1986.

Senate Bill 383 rovides the oil and gas industry an incentive to make significant investments in Montana by rewarding success with a 24 month tax reduction. In an

SENATE TAXATION
EXHIBIT NO. 4
DATE 3-3-87
BILL NO. SB383

extremely high risk business the odds are against success; and the investment to participate is large. Prior to drilling a test hole in the ground, every operator must invest time and money to develop a prospect worthy of drilling. Geologic studies occur long before drilling; geophysical money is spent; leases are acquired; and the expense of manpower is constant. These "up front" investments are what makes an oil industry in Montana. By providing the proposed tax incentive for 24 months of the producing phase, the state is encouraging operators to participate in the prospecting process.

As an operator in the Rocky Mountain region, CENEX must weigh the investment and return in each drilling venture in each state. Wyoming has taken steps this year to provide drilling incentives through tax relief. As a Montana based company, CENEX has plans for additional work in our state. Those projects can be increased with the passage of SB-383.

CENEX supports passage of SB-383.

Thank you.

SENATE TAXATION
EXHIBIT NO. 4
DATE 3-3-87
BILL NO. S.B. 383

NAME: Ward A. Shanahan BILL NO. SB 383

ADDRESS: 301 First National Bank Building, Helena, MT

WHOM DO YOU REPRESENT: Chevron Company

SUPPORT

Good morning. My name is Ward Shanahan, representing Chevron. Thank you for the opportunity to present Chevron's views.

Chevron strongly supports SB 383 and HB 776 - legislation providing for tax holidays for new oil and gas production and tax exemptions for stripper-oil production.

The authors are to be commended for recognizing that economic incentives for oil and gas production are desperately needed during this time of severe depression in the industry. Exploration and development budgets are coming under intense scrutiny and we must allocate our limited financial resources to prospects where the return on investment is the greatest. Reductions in taxes will improve the economics of oil and gas projects in Montana and help ensure that the state remains competitive in attracting investment capital for this industry.

I might also add that our oil and gas industry is very active at the Federal level in seeking incentive legislation that will bolster the nation's productive capacity and help reduce our increasing dependence on foreign oil. By passage of this legislation in Montana, you can help us send a message to Washington that incentives are necessary and that key oil and gas producing states are doing their part by enacting sound energy policies.

Thank you for your consideration.

Respectfully,

Ward A. Shanahan
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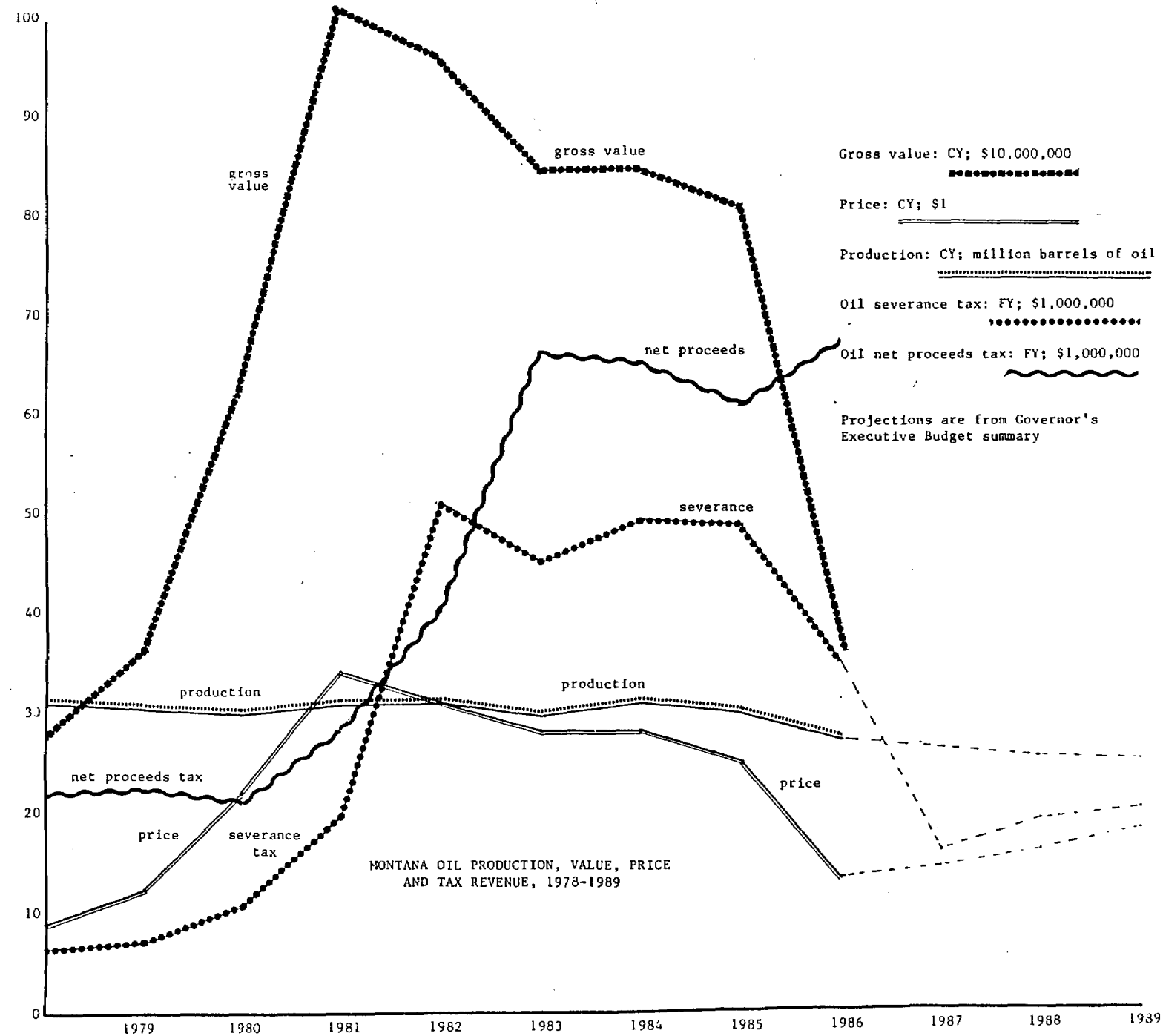
4258W

SENATE TAXATION
EXHIBIT NO. 5
DATE 3-3-87
BILL NO. SB 383



MONTANA OIL PRODUCTION, VALUE, PRICE AND TAX REVENUE, 1978-1989

SENATE TAXATION
EXHIBIT NO. 6
DATE 3-3-87
BILL NO. SB 383

Janelle Fallon

MONTANA PETROLEUM FACT SHEET

PRODUCTION

CY	Bbls.	Gross Value	MCF	Gross Value	Total Wells Drilled
1978	30,934,923	$ 277,737,502	44,615,198	37,342,921	778
1979	30,285,631	362,239,259	50,691,868	60,931,625	822
1980	29,927,468	626,154,711	48,928,608	70,261,481	902
1981	30,517,947	1,052,333,907	44,800,000	85,120,000	1289
1982	30,937,514	963,428,800	50,932,000	107,109,990	816
1983	29,320,418	842,681,933	41,203,000	99,010,809	511
1984	30,668,305	845,919,776	48,499,939	120,949,800	819
1985	29,770,000	808,553,200	44,330,000	98,772,380	592
1986	27,045,000	371,436,030	44,016,000	86,799,552	348

	OIL WELLHEAD PRICE: $/BBL	PRODUCING OIL WELLS	NATURAL GAS PRICE: $/MCF	PRODUCING GAS WELLS	EXTRACTION EMPLOYMENT	SEISMIC CREW MONTHS
1973	3.843	3536	.162	1118	1523	62
1974	6.814	3028	.257	1184	1861	155
1975	7.845	3150	.394	1232	1810	40
1976	8.411	3310	.441	1950	2084	85
1977	8.582	3354	.735	1490	2357	57
1978	9.253	3275	.837	1377	2789	155
1979	12.279	3573	1.202	1881	3383	135
1980	22.250	3628	1.436	2150	4636	202
1981	34.317	3968	1.900	2142	6852	388
1982	31.311	4311	2.103	2069	5482	224
1983	28.804	4675	2.403	2043	3760	156
1984	28.066	4201	2.512	2088	4293	125
1985	25.214	4196	2.329	2033	3357	43
1986	13.734	4036 (est.)	1.972	2006 (est.)	na	na

TAXES

Montana imposes four taxes on oil and natural gas:

A. Severance tax is 5% of the gross value of oil and 2.65% of natural gas.

The revenue is allocated as follows:

1) One-third of the oil severance tax to Local Government Block Grant account for distribution to all Montana cities and counties.

2) A portion of the collections is returned to cities and counties in the oil-producing areas to help them in dealing with impacts. The portion returned varies according to the new production in each county:

FY	OIL	NATURAL GAS
1981	$ 992,488	na
1982	1,644,112	183,789
1983	4,353,485	206,759
1984	1,422,335	509,260
1985	3,087,474	104,910
1986	475,922	106,915

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3) The remainder to the state general fund.

The tax rate for incremental oil produced through tertiary recovery after July 1, 1985, is 2.5%.

B. Net Proceeds Tax is calculated on gross value of oil, minus all allowable deductions and multiplied by the local mill levy. The 1985 Legislature set 7% maximum on oil and 12% maximum on gas produced after July 1, 1985, from leases which have not produced during the preceding five years. Therefore, the maximum tax rate on "new" production from a previously non-producing lease will be 12.7% on oil and 15.35% on gas.

C. Resource Indemnity Trust Tax is .5% of gross value of all minerals produced. These taxes are placed in a trust fund to "indemnify the state against damage to the environment from the extraction of non-renewable natural resources."

	SEVERANCE TAX		NET PROCEEDS TAX		RESOURCE INDEMNITY TRUST TAX	
FY	OIL	NATURAL GAS	OIL	NATURAL GAS	OIL	NATURAL GAS
1980	$10,544,555	$1,264,025	$21,011,951	na	$1,828,947	$355,054
1981	19,578,172	2,116,291	28,663,376	na	3,328,426	419,647
1982	51,073,425	2,659,811	40,868,506	na	5,308,525	491,832
1983	45,228,535	2,649,726	66,160,884	na	4,783,438	522,396
1984	49,029,017	2,797,996	65,610,580	$11,976,791	4,279,714	589,348
1985	48,789,984	2,945,778	60,819,000	14,220,000	4,204,763	627,504
1986	34,728,749	2,890,666	67,220,584	14,771,771	3,913,955	583,961

D. Conservation Tax: The Board of Oil and Gas Conservation levies a tax to support its own operations. The tax is .2% of gross value. It yielded $753,000 in FY 1985 and $631,000 in FY 1986.

On the average, local governments spend 60% of these funds for education, 8% for city operations, 23% for county operations, and 6% for fire and other special districts. About 3% is returned to the state to support the university system.

Information compiled January, 1987, from:

Montana Department of Revenue annual reports
Governor's Budget Office reports
Montana Oil and Gas annual reviews
"The Petroleum Industry In Your State," Independent Petroleum Association of America

Compiled by: Montana Petroleum Association
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INDEPENDENT

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WEDNESDAY AFTERNOON
February 18, 1987
Helena, Montana
Vol. 43 No. 89

'Long gas lines will return'

WASHINGTON (AP) — Americans will face long lines for gasoline in two to five years unless new domestic oil fields are developed, Interior Secretary Donald P. Hodel predicted today.

Hodel, appearing on the NBC-TV "Today" show, said an energy crisis similar to the one that gripped the country in 1973-74 after OPEC imposed an oil embargo is "almost a certainty" if depressed domestic production does not pick up.

The crisis will strike "within two to five years, and the reason for that is the dramatic reduction in American production of oil."

"We've lost over 800,000 barrels a day of production in the United States," Hodel said. "Our imports are approaching a million barrels a day more than they were just a year ago."

About 39 percent of the oil used in the United States is imported. Hodel said this is a larger percentage than was the case in 1973.

What's causing the problem, he said, is cheap foreign oil.

Although he acknowledged that low prices have aided motorists and helped fuel the economic recovery, he said the country ought to enjoy cheap gasoline while it lasts because it won't be around for very long.

"The more we count on" low prices, "the more likely it is that we'll be in gas lines sooner rather than later."

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MONTANA DRILLING RIG COUNT BY WEEK

WEEK OF		1987	1986	1985
February	20	5	19	17
	13	5	18	20
	6	6	19	18
January	30	7	21	33
	23	3	23	26
	16	5	28	30
	9	8	27	33
	2	12	25	31
December	19		10	22
	12		9	21
	5		15	25
November	26		12	23
	21		12	23
	14		12	21
	7		9	19
October	31		9	16
	24		10	17
	17		9	19
	10		5	14
	3		5	18
September	26		5	27
	19		3	20
	12		2	19
	5		NA	NA
August	29		6	20
	22		5	18
	15		4	24
	8		5	27
	1		3	28
July	25		2	28
	18		2	31
	11		0	32
	3		NA	NA
June	27		5	27
	19		6	21
	12		7	22
	5		7	20
May	29		6	20
	22		5	20
	15		7	25
	8		8	23
	1		7	22
April	24		7	19
	17		10	19
	10		11	19
	3		12	22
March	26		13	23
	20		11	25
	13		12	25
	6		14	23
February	27		18	19

from: Montana Oil Journal

compiled by Montana Petroleum Association

SENATE TAXATION
EXHIBIT NO. 6
DATE 3-3-87
BILL NO. S.B. 383

Testimony in Opposition to Senate Bill 66 and Senate Bill 383

Presented by Hershel M. Robbins, Representing the Association of Oil, Gas, and Coal Counties.

March 3, 1987 before Senate Taxation Committee

Mr. Chairman and Members of the Committee:

I am Hershel Robbins, representing the Association of Oil,Gas and Coal Counties and I rise in opposition to Senate Bill 66 and Senate Bill 383 that are both being heard in committee this morning. I will at this time for the record just oppose S.B. 66 but will present my full testimony in opposition during the hearing on SB 383 which will apply to both bills.

The counties represented in our association do certainly support the concept of increased oil production in our state. The problem is not in increasing the production but one of inflicting a two year moratorium on the net proceeds tax that would just be another burden on county government that they can't afford at this time. The revenues already lost in the form of federal and state entitlements coupled with this further erosion is just too much to bear at this time of shrinking revenues.

This bill leaves several problems unresolved that are important to the counties revenue figures such as what if an oil well has been abandoned or plugged does the reopening of this well constitute new production and therefore not subject to the net proceeds tax? And in the event of a sudden escalation in the price of oil then how would the counties make up the revenues lost on this price increase under the moratorium period as proposed in this bill. My association feels the counties just can't absorb these losses and therefore we go on record in opposition to SB66 and SB383 and ask the committee to give it their full consideration.

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Norris Nichols said from an administrative standpoint he prefers the fee. We can go on a per gallon basis but it will mean more work for the department.

Jack Brown said propane is only about 1% of the motor fuel tax. With the permit system the state has the use of the money from January 1 and that is a plus.

Senator Lybeck closed.

CONSIDERATION OF SB 387: Dan Bucks, Deputy Director, Department of Revenue, gave technical comments concerning this bill. He said he is here to tell the committee what the Department can do now, without additional administrative costs, and the kinds of changes that would require additional costs in SB 387. Without additional funding they could not do the changes in the bill relating to the oil and gas taxes by April 1. What could be done by April 1, without additional administrative costs, is the change proposed in the coal tax. For the oil and gas taxes, what would be potentially favorable, would be to have a production criteria and require the oil to be reported monthly above that level and the natural gas would not need to be reported any sooner than every 45 days. From administrative experience, it is not possible for them to report in 30 days. It would also be favorable to accelerate the electrical energy tax. The revenue effect of that for the state would be $8.5 million. He would urge consideration for the changes to be delayed to January 1, 1988.

Senator Eck closed.

DISPOSITION OF SB 383: Senator Crippen made a motion that SB 383 DO PASS.

Senator Lybeck said this is another loss to the general fund.

Senator Crippen said any time you cut the taxes there will be a loss to government. From the testimony heard on this bill, he is convinced that now is the time to give the oil and gas industry some incentives to come into the state, especially at this point in time.

Senator Neuman is in agreement with Senator Lybeck in relation to the shortfall that occurs to the general fund if this bill is implemented. The Senate has passed out bills that will reduce the revenue to the local governments by $15 million already. We are shifting the burden onto the local taxpayers and he does not

think that is something we should be doing this session. In 1985 we lowered the taxes on stripper wells and tertiary production to provide incentives to increase production, which has not materialized.

Senator Mazurek said the fiscal note doesn't address what causes the adverse fiscal impact. He asked Janelle Fallan if there were several factors working together.

Janelle Fallan said Senator Gage did have some questions about the fiscal note and planned to talk with the Budget Office about them.

Dan Bucks said the 25% referred to in the fiscal note was to take one quarter off FY 88 as opposed to a full year. The key assumption is item #2 for the way the revenue effect was calculated. Item #2 is new production that was occurring in that year and the assumption is that would be the level of new production in the future and that would be the oil and gas that would receive the tax reduction under this particular bill.

Senator Eck said the estimate you are basing this on is the 1986 level. It seems to her there are a number of years of work on development before they actually drill and produce. The new production that we see in 1986 is based on conditions higher than the very depressed oil market today. She asked Dan Bucks to respond.

Dan Bucks said he did not think the Budget Office or the Department was in a position to have the information to respond to that question. We do not know what the cycle is within the industry as to when they would be making decisions for the 1986 production that was produced.

Janelle Fallan said we do know that, as Bill Ballard suggested, there are wells that are being planned, in part, depending on what happens here. There are a few that are on the books. If something like this passes, a lot of companies that are looking at their exploration budgets, will take a serious look at Montana.

Senator Severson said this is an incentive bill. He is wondering if there would be support for the bill if the incentive was for 12 months instead of 24 months.

Senator Mazurek said you need the new definition of interim and new production, if you do nothing more than correct what should have been done in 390 last session. He does not know the impact of providing the proration.

Dan Bucks said the fiscal note assumes that the proration of deductions, if done in a proper manner, does not adversely effect revenue.

Senator Crippen referred to what happened in Alberta when they had an adverse federal policy. He does not think the local governments can afford not to have something like this. If our production continues to go down, their income will continue to go down. We have to do something to get more wells drilling so production will go up.

Senator Hirsch asked Janelle Fallan if a well has been drilled, capped and redrilled, if that is considered new production under this bill.

Janelle Fallon said if it has been capped for 5 years, and in that case it will have to be redrilled and will qualify.

Senator Brown asked Mike Walsh if we did what Senator Severson suggested and limited this to one year, what would the fiscal impact be.

Mike Walsh said the fiscal impact would be 1/4 of what the fiscal impact would be for two years.

Senator Brown said he couldn't help but be impressed by Mr. Ballard's map. It seems like the drilling activity shouldn't just stop at the borders to Montana. He would be willing to give this industry a little more incentive. Senator Brown made a substitute motion to amend the bill to cut the effect of this to the first 12 months rather than the first 24 months.

Senator Neuman said the committee has to make some sort of decision on where to draw the line. If we do this for the oil industry, we are placing a greater burden on people that can't afford to pay it any more than the oil and gas people. What is more important.

Senator McCallum said if they don't produce we won't get anything. If you encourage them to produce, in the long run it will help the state and counties.

Senator Eck said Senator Neuman's comments are good. She thinks it would be wise to sit down in subcommittee and look at the various proposals that we have and the ones that are in the House that provide some tax relief to the oil industry. She likes this one better than some of the other ones.

Senator Brown's substitute motion carried with Senator Crippen opposed.

Senator Severson made a motion that SB 383 DO PASS AS AMENDED. The motion carried with Senator Lybeck opposed.

DISPOSITION OF SB 66: Senator Mazurek made a motion that SB 66 DO PASS. He believes it is a necessary bill to correct some of the problems with 390 last session. The motion carried with Senator Lybeck opposed.

DISPOSITION OF SB 340: Senator Severson furnished the committee with amendments to set up a new mechanism to fund the Department of Livestock. The process will go completely to the Department of Livestock from the Department of Revenue. Both departments worked together and agreed on the process. A copy of the amendments is attached as Exhibit 3.

Senator Severson made a motion to adopt the amendments. The motion carried.

Senator Severson made a motion that SB 340 DO PASS AS AMENDED.

Senator Neuman said his arguments are essentially the same on this bill as on the previous bill. This will be a significant reduction to the local governments. The grain is not a problem, there is not a lot of grain stored on the farms because of the PIK program. The livestock tax is a significant tax base and we will cripple some counties if we take into consideration I-105. We will make a better Montana if we use the policies that we have had. We can't keep giving away the tax base.

Senator Eck said she thought there was a lot of merit in doing this but not without an amendment to state that this is effective only if we have a source of replacement revenue. Also, especially for this bill because it is a little more substantial, we should specifically state that this will address I-105. Without these amendments, she can't support the bill.

Senator Mazurek asked if any thought was given to putting breeding stock back in. We took the inventory tax off the retailers and this will take the cattle off, but the breeding stock is more like equipment and maybe should be taxed.

Senator Hirsch said he understood what he was questioning, but he sees a cow as producing income. In that respect, you can't really separate them.

STANDING COMMITTEE REPORT

March 6 19 87

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration SENATE BILL No. 383

first reading copy (white color)

NEW PRODUCTION AND STRIPPER WELL EXEMPTION FROM NET PROCEEDS TAXES

Respectfully report as follows: That SENATE BILL No. 383

be amended as follows:

1. Title, line 9.
Strike: "24"
Insert: "12"

2. Page 9, line 13.
Strike: "24"
Insert: "12"

3. Page 22, line 8.
Strike: "24"
Insert: "12"

4. Page 22, line 14.
Strike: "24-month"
Insert: "12-month"

AND AS AMENDED

DO PASS

~~DO NOT PASS~~

SENATOR GEORGE McCALLUM, Chairman.